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**Analysis of the PPBE Process
in the Current Dynamic
Political Environment**

**By: Sharon G. Holcombe and
Nathan C. Johnston
June 2008**

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**ANALYSIS OF THE PPBE PROCESS IN THE CURRENT DYNAMIC
POLITICAL ENVIRONMENT**

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Submitted in partial fulfillment of the requirements for the degree of

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ANALYSIS OF THE PPBE PROCESS IN THE CURRENT DYNAMIC POLITICAL ENVIRONMENT

ABSTRACT

The Planning, Programming and Budgeting (PPB) system was introduced in the department of Defense (DoD) in the 1960's to link strategies to programs that best satisfy the Nation's policy objectives and fit within budget constraints. Over the past 45 years, modifications were made to the PPB system, and it is now referred to as the Planning, Programming, Budgeting and Execution (PPBE) system, but the original intent of PPB remains intact. Traditionally, wars were funded initially with emergency supplemental funding until the cost of the war could be added into the baseline budget process. The Global War on Terror (GWOT), now in its six year, continues to be funded outside the PPBE process through supplemental appropriations. This project identifies and examines the key factors related to this deviation from the PPBE process. The research analyzes the domestic environment in which PPB was originally implemented and the post 9/11 environment in which it currently exists. A comparative analysis is used to determine the reasons for the increased use of supplementals for baseline and GWOT funding in the last six years. The project also identifies the implications of continued deviation from the PPBE process utilizing parallel budgeting processes.

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TABLE OF CONTENTS

I.	INTRODUCTION.....	1
A.	OBJECTIVE	1
B.	SCOPE OF PROJECT	2
C.	METHODOLOGY	3
D.	ORGANIZATION	4
II.	FITNESS OF PPBE	5
A.	PURPOSE OF PPB.....	5
B.	CURRENT PPBE PROCESSES	6
1.	The Planning Phase.....	8
2.	The Programming Phase.....	11
3.	The Budgeting Phase	14
4.	The Execution Phase.....	15
C.	PPB SUCCESS FACTORS.....	16
D.	CONCLUSION	21
III.	FUNDING POST 9/11 GWOT	23
A.	ANNUAL BUDGET PROCESS	23
1.	Formulation	23
2.	Congressional Process	24
3.	Budget Execution	26
B.	SUPPLEMENTAL APPROPRIATION PROCESS	27
C.	DIFFERENCES – ANNUAL AND SUPPLEMENTAL.....	31
D.	GWOT SUPPLEMENTALS.....	33
E.	CONCLUSION	35
IV.	ANALYSIS	37
A.	PESTEL ANALYSIS OF THE 1960/1970 ERA	37
1.	DoD Environment: 1960s/1970s.....	38
2.	Political.....	38
3.	Economic.....	40
4.	Socio-Cultural	41
5.	Technological.....	42
6.	Ecological	43
7.	Legal	44
B.	PESTEL ANALYSIS OF THE POST 9/11 ENVIRONMENT.....	45
1.	Political.....	45
2.	Economic.....	47
3.	Socio-cultural.....	48
4.	Technological.....	50
5.	Ecological	51
6.	Legal	52
C.	POST 9/11 CONTRIBUTIONS TO PPBE DEVIATION.....	54

V.	CONCLUSIONS OF ANALYSIS, LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH	61
A.	CONSEQUENCES OF CONTINUED DEVIATIONS FROM PPBE.....	61
B.	BASE BUDGET DEVIATION	63
C.	STUDY LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH.....	65
	LIST OF REFERENCES	67
	INITIAL DISTRIBUTION LIST	71

LIST OF FIGURES

Figure 1.	Four Years in the Two Year Cycle	7
Figure 2.	Budget Cycle at a Point in Time	8
Figure 3.	The Planning Phase.....	9
Figure 4.	Even Year Programming/Budgeting Phases	13
Figure 5.	Odd Year Programming/Budgeting Phases	13
Figure 6.	The Defense Budget Process	27
Figure 7.	Budget Authority for GWOT Operations	33
Figure 8.	1960's/70's PESTEL Diagram	38
Figure 9.	Post 9/11 PESTEL Diagram	45
Figure 10.	Composition of Federal Spending	59

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I. INTRODUCTION

The Planning, Programming, and Budgeting (PPB) process was introduced in the U.S. Department of Defense during the early 1960s in order to link strategies to the identified programs, within budget requirements, that most satisfy the Nation's policy objectives. Previous budgeting systems were inadequate to the task and PPB took advantage of enhanced analytical techniques. Over the past 45 years, modifications were made to the PPB System, and it is now referred to as the Planning, Programming, Budgeting and Execution (PPBE) System, but the original intent has remained intact.¹ Other federal agencies attempted to implement PPB-based systems but the reform only persisted within DoD.

DoD used PPB to fund its activities throughout the Cold War, Vietnam, and the Post-Cold War period. It has been used during periods of conflict and of relative peace. Thousands of DoD employees work full-time on the various processes within PPBE. The strategic environment in which the system operates has undoubtedly changed over the decades, but the system for matching national security strategy to budgets has ably served the department. That is, until very recently. The Global War on Terror (GWOT), now in its sixth year, is being funded outside the PPBE system. Separate budget requests and emergency supplemental appropriations have funded the war while the baseline departmental request has been budgeted through PPBE and appropriated in the annual defense appropriation.

A. OBJECTIVE

The primary goal of this project is to examine and identify the key factors related to the fundamental change that has occurred to the PPBE process in the post 9/11 environment. The research will analyze the domestic environment in which PPB was originally implemented and the post 9/11 environment in which it currently exists. A

¹ Jerry L. McCaffery and L.R. Jones, "Reform of Program Budgeting in the Department of Defense," *International Public Management Review* 6 (2) (2005): 141 – 145.

comparative analysis will be used as a basis to determine the reasons for the increased use of supplemental appropriations for baseline and GWOT funding in the last six years. In addition, the implications of using parallel budgeting processes are noted.

The primary research question answered by this project is as follows:

- How relevant is the PPBE process in the post 9/11 environment?

To help reach this objective, the following supporting research questions will be explored:

- What was the environment when DoD implemented the PPB process?
- What was the original intent of the PPB process?
- Why was the PPB process unsuccessful in other federal agencies?
- How does the post 9/11 environment compare to the environment that existed when PPB was originally implemented?
- How did DoD fund pre 9/11 contingency operations?
- How are supplemental and baseline budget and appropriation processes different?
- What budget processes have been utilized since 9/11?
- What are the ramifications of utilizing processes parallel to the PPBE system?

B. SCOPE OF PROJECT

The research and recommendations of this project were strictly limited to the Department of Defense and did not include the Department of Homeland Security. The factors that led to DoD's implementation of the PPB process and identifiable causes leading other federal agencies to choose alternate budgeting processes were examined. A general overview of the agencies where PPB did not originally succeed was explored; however, an in-depth analysis of these agencies was not conducted. The current DoD budget process was compared to the original PPB process. Potential ramifications of continued use of parallel processes in the PPBE System were identified. Post 9/11 refers to the time that has elapsed since September 11, 2001.

The intent of this project was not to craft a new budgeting system, but rather to document and identify the existing processes. Detailed dollar amounts of items in the current budget were not critiqued; however, the categorization of certain budget line items was questioned. Lastly, the expenses incurred in support of GWOT are defined as post 9/11 contingency funding and do not include non-war-related items contained in supplemental appropriations such as Hurricane Katrina support.

C. METHODOLOGY

A Political, Economic, Socio-Cultural, Technological, Ecological, and Legal (PESTEL) Analysis was utilized to define the 1960's domestic and DoD environment; the DoD environment after 9/11 is also analyzed. The PESTEL Analysis identifies the factors that combine to form these respective environments.

Scholarly journals and other existing literature studies were used as references to describe the intent of the original PPB implementation in DoD and the reasons for the failures of PPB in other federal agencies. The defined environments of these two time periods, the intent of PPB implementation and reasons for failure in other federal agencies serve as the basis for a comparative analysis between the period when PPB was originally implemented and the current post 9/11 period.

DoD directives and regulations were utilized in analyzing the funding of pre-9/11 contingency operations and in defining baseline and supplemental budgeting processes. Four interviews were conducted with civilian personnel either currently or previously involved in the PPBE process. These interviews were provided on a non-attribution basis by the participants. The four people included an SES from the Army, a senior journalist from the Congressional Research Service, a professional staff member from the House Appropriations Committee on Defense, and a prior Deputy Director of OSD Program Analysis and Evaluation (PA&E). All of the interviews were conducted in person at the Pentagon, Capitol Hill, and offices located in the Washington, DC area. These four interviews accounted for over six hours of audio recordings and 61 pages of transcription. The interview transcriptions were coded to extract common themes. The interviews provided personal anecdotes and professional observations of historical and existing

PPBE operations and supplemental processes. Conclusions drawn from the methods previously described were used to determine the ramifications of the continued use of parallel processes in the PPBE System.

D. ORGANIZATION

This study begins with an examination of the fitness of PPBE in the Department of Defense. This includes defining the purpose of PPBE and the entailing the process involved in each stage. The reasons for failure of the original PPB process and the agencies associated with these failures are summarized based on literature of the time.

Chapter III explores the funding mechanisms and processes within the Department of Defense. The annual and supplemental appropriation processes are defined and explained in detail. A historical perspective of funding previous military contingencies is addressed and an examination of the differences between the two processes is evaluated and compared. The chapter concludes with a description of the methods used to fund GWOT in the post 9/11 environment.

Chapter IV provides a comparative analysis using the Political, Economic, Socio-Cultural, Technological, Ecological and Legal (PESTEL) Analysis model of the domestic environment at the time that PPB was originally implemented and the dynamic post 9/11 environment that currently exists. The setting in which the PPBE System now operates has undoubtedly changed during this time period. The chapter concludes with an analysis of the effects of the post 9/11 environment on the PPBE process.

Chapter V considers the consequences of utilizing processes parallel to the PPBE System in the post 9/11 environment. The chapter examines the results of continued deviations from PPBE and concludes with recommendations for further research.

II. FITNESS OF PPBE

The Planning, Programming and Budgeting and Execution (PPBE) System serves as the Department of Defense's (DoD) resource allocation system. In preparation for the analysis section of this document, this chapter provides an overall description of the purpose and processes of PPBE, an exploration of the reasons why the attempt to institute it government-wide failed, and an identification of the agencies where the system has failed.

A. PURPOSE OF PPB

In 1966, President Johnson mandated that the Planning, Programming and Budgeting (PPB) System be implemented across the entire the federal government. This style of budgeting, commonly referred to as program budgeting, had been in use in the Department of Defense (DoD) since Robert McNamara implemented it in 1962.² Program Budgeting was revolutionary in nature as it sought to provide financial decision makers with a well planned and quantifiable method for choosing among available alternatives in support of policy objectives.³ PPB was the next step in the evolution of budget reform and built upon the expenditure controls systems introduced between 1920-1935 (to ensure reliable accounting data) and the management decision-making tools provided by the performance budgeting initiatives of the 1950's (introducing efficiency measures to managers).⁴ PPB would serve as the one-size-fits-all budgeting system for the entire federal government through continued use of reliable accounting systems, informed management decisions based on efficiency, and the addition of long-range planning and analysis of alternatives.

On its most basic level, the purpose of PPB was to produce a plan, then programs to meet the objectives of the plan as well as a budget that funded the chosen programs

² L. R. Jones and Jerry McCaffrey, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 89.

³ Allen Schick, "The Road to PPB: The Stages of Budget Reform," *Public Administration Review*, Vol. 26, No. 4 (December 1966): 243.

⁴ Ibid.

within fiscal constraints.⁵ At a deeper level, PPB would serve these purposes by “converting the annual routine of preparing a budget into a conscious appraisal and formulation of future goals and policies.”⁶ Taking a longer time frame into account, when planning for budgeting, PPB would allow more informed decision to be made when choosing among available alternatives. Through the availability of more options and the deeper exploration of these options using the tools of systems analysis, PPB would optimally allocate resources when choosing the programs that satisfied policy objectives.⁷

The reign of PPB as the singular form of budgeting for the federal government would be short lived, however. President Nixon retired PPB as the federal government’s sole form of budgeting in 1969.⁸ Nearly forty years later, the Department of Defense (DoD) is the stalwart federal agency that continues to use PPB. In 2003, DoD began to emphasize the importance of budget execution and changed the name from PPB to PPBE (Planning, Programming, Budgeting and Execution) System. Although the “E” was added, PPBE still retains the main tenets of the original PPB System.

B. CURRENT PPBE PROCESSES

In May of 2003, Management Initiative Decision No. 913 (MID 913) transformed PPB into PPBE. In addition to adding execution as its own phase, MID 913 converted DoD’s principal resource allocation system from “an annual Program Objective Memorandum (POM)/Budget Estimate Submission (BES) cycle to a biennial (two-year)

⁵ Department of Defense, “The Planning, Programming and Budgeting System,” *DoD Directive 7045.14* (May 22, 1984), <http://www.dtic.mil/whs/directives/corres/html/704514.htm> (accessed April 4, 2008).

⁶ Allen Schick, “The Road to PPB: The Stages of Budget Reform,” *Public Administration Review*, Vol. 26, No. 4, (December 1966): 244.

⁷ *Ibid.*, 254.

⁸ L. R. Jones and Jerry McCaffrey, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 92.

cycle with DoD formulating two year budgets in the on-year (or even year) and using the off-year (or odd year) to focus on budget execution and program performance.”⁹ Figure 1 illustrates four years of this two-year cycle.

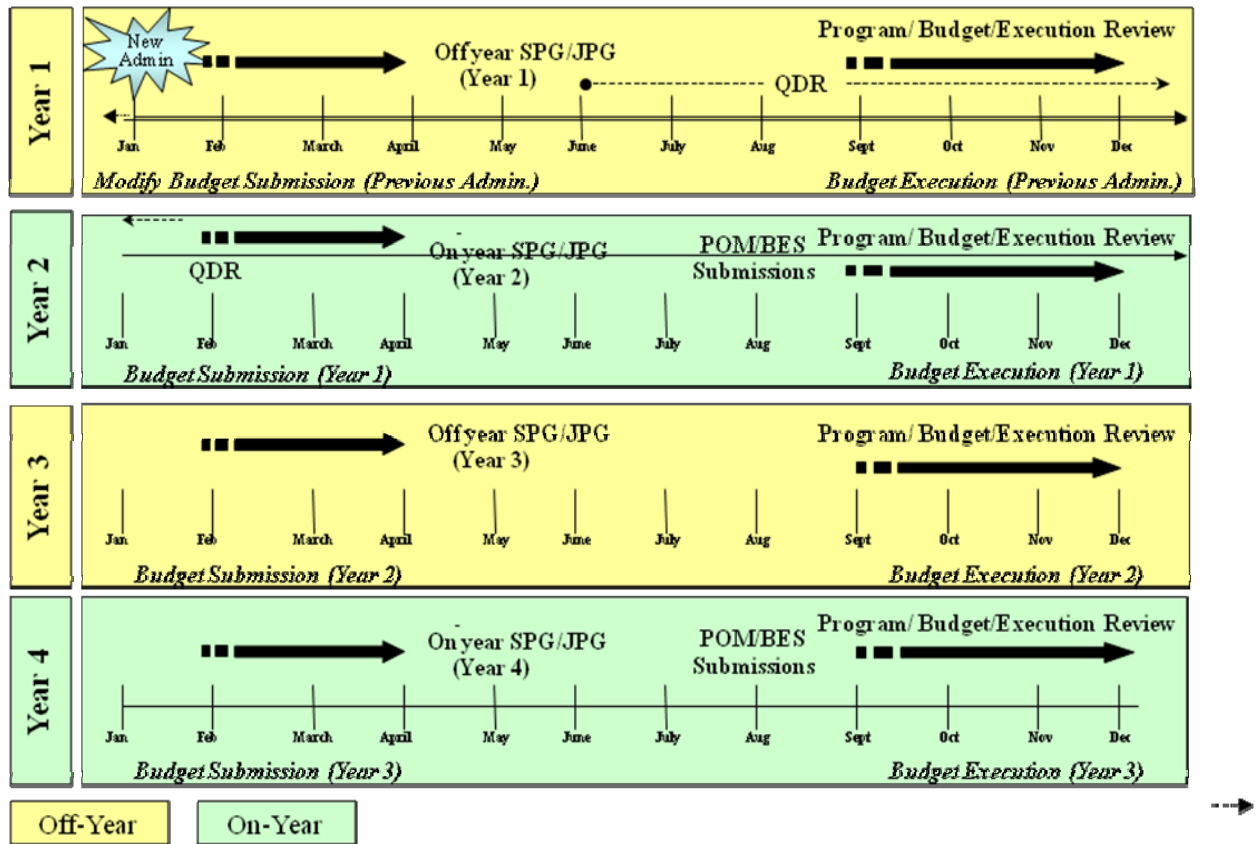


Figure 1. Four Years in the Two Year Cycle¹⁰

As the acronym indicates, PPBE consists of four phases. These phases occur sequentially but overlap one another at numerous points throughout the cycle. Figure 2 illustrates that at any one point in time, multiple phases (of four-year budgets) are occurring simultaneously at different levels of the federal government and within DoD.

⁹ Department of Defense, *Management Initiative Decision No. 913* (May 2004), 2.

¹⁰ *Ibid.*, 4.

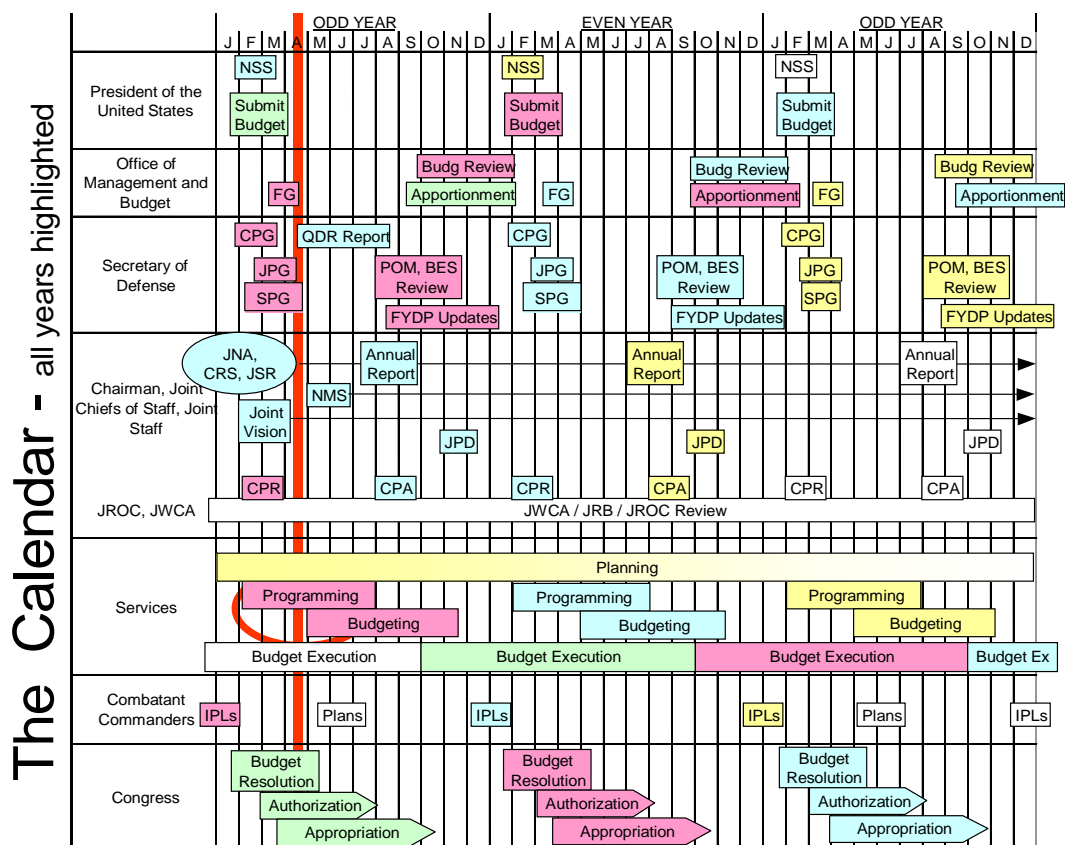


Figure 2. Budget Cycle at a Point in Time¹¹

Planning occurs throughout the process, with programming and budgeting overlapping under a single review, and execution occurring during each of the budget years. Each of these phases and the documents that comprise the cycle illustrated in Figures 1 and 2 will be discussed in turn to provide an overview of the PPBE processes.

1. The Planning Phase

The planning phase is the first step in the PPBE process. Its goal is to determine and set forth a vision of how the military accomplishes some of the nation's strategic objectives. The planning phase accomplishes this objective by focusing on: "defining the national military strategy necessary to help maintain national security and support U.S. foreign policy 2 to 7 years in the future; planning the integrated and balanced military

¹¹ R. E. Sullivan Jr., ed., "Resource Allocation: The Formal Process," *Naval War College*, February 1, 2002.

forces necessary to accomplish that strategy; ensuring the necessary framework (including priorities) to manage DoD resources effectively for successful mission accomplishment consistent with national resource limitations; and providing decision options to the Secretary of Defense (SECDEF) to help him assess the role of national defense in the formulation of national security policy and related decisions.”¹² The ultimate output of the planning phase is the SECDEF’s Joint Programming Guidance (JPG). The JPG provides top down strategic guidance to the military, rooted in the overarching defense strategy from the executive branch, which drives the military force structure and fiscal decisions made in the programming phase.¹³ Figure 3 provides an illustration of the documents and steps that occur during the planning phase.

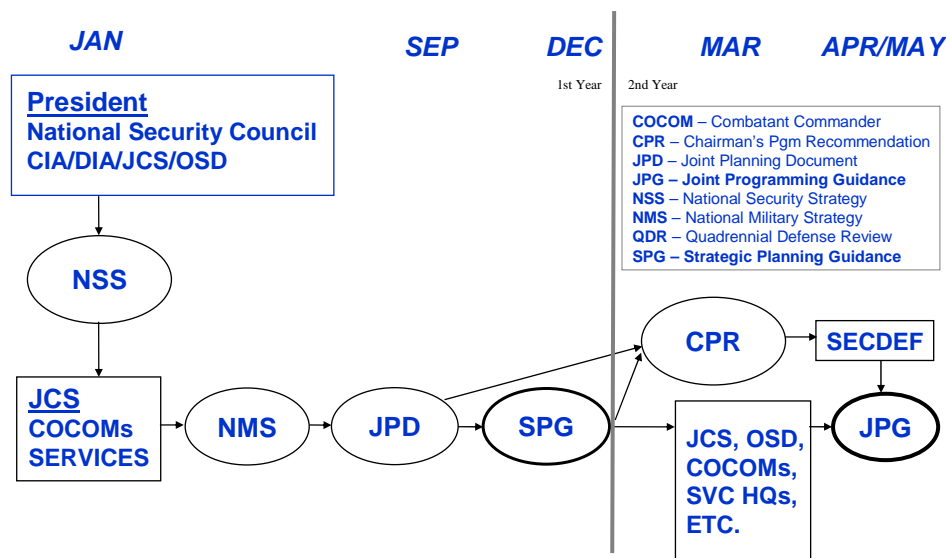


Figure 3. The Planning Phase¹⁴

¹² Department of Defense, “The Planning, Programming and Budgeting System,” *DoD Directive 7045.14* (May 22, 1984), Available from: <http://www.dtic.mil/whs/directives/corres/html/704514.htm> (accessed April 4, 2008).

¹³ L. R. Jones and Jerry McCaffrey, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 99.

¹⁴ Philip Candrevam, *PPBE Slides*, MN3154, Graduate School of Business and Public Policy, (Monterey, CA: Naval Postgraduate School).

The planning phase receives its overarching direction from the executive branch. The President, along with inputs from his National Security Council and several other federal agencies, produces the National Security Strategy (NSS). The NSS takes threats to the security of the United States into account in providing an overall defense strategy to mitigate these threats.¹⁵ The Secretary of Defense, in turn, issues the National Defense Strategy (NDS). The NDS lays out the SECDEF's strategic objectives for DoD, based on the NSS, and provides his vision for meeting these objectives.¹⁶ The Joint Chiefs of Staff (JCS), also utilizing the guidance provided in the most current NSS, produce the National Military Strategy (NMS). The NMS provides the JCS' advice on planning and providing the military capabilities required to meet the strategic objectives and intent as set forth by the NSS.¹⁷ The NSS, NDS, and NMS are updated sporadically as dictated by new administrations and/or as other events necessitate new strategies. In addition to the three planning documents, DoD also produces the Quadrennial Defense Review (QDR). The QDR is performed every four years in the first year of each administration. It provides a plan for future force configuration, and is therefore, an input into the planning phase every fourth year.¹⁸ These documents are inputs into the PPBE process and provide broad and fiscally unconstrained planning direction from the President to the SECDEF and JCS by defining objectives designed to mitigate threats to national security.

On an annual basis as part of the planning phase, the Combatant Commanders (COCOMs) address strategic concerns in their respective areas by issuing Integrated Priority Lists (IPLs), taking into account the objectives in the documents previously mentioned. In turn, the JCS produces the Joint Planning Document (JPD) to report the SECDEF's annual Strategic Planning Guidance (SPG). The SPG sets forth the SECDEF's strategic plan for developing and using future forces and may contain specific

¹⁵ L. R. Jones and Jerry McCaffrey, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 98.

¹⁶ CAPT Lisa Potvin, *Practical Financial Management: A Handbook for the Defense Department Financial Manager*, 7th Ed. Naval Postgraduate School, Monterey, CA. (November 2007), 39.

¹⁷ L. R. Jones and Jerry McCaffrey, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 99.

¹⁸ R. E. Sullivan, Jr. "The Department of Defense Planning, Programming, Budgeting and Execution (PPBE)," *The U.S. Naval War College* (January 2004): 3.

information on important “big ticket” programs.¹⁹ On a bi-annual basis, in even years, the CJCS utilizes the JPD and SPG as inputs and provides the SECDEF with specific programmatic recommendations through the issuance of the Chairman’s Program Recommendation (CPR). Utilizing the CPR, his own thoughts, and the planning documents previously mentioned, the SECDEF produces the JPG. The JPG is the final output of the planning phase and provides the SECDEF’s fiscal and programmatic guidance for efficiently allocating DoD’s resources in achieving the nations desired strategic objectives.²⁰

2. The Programming Phase

In the programming phase of the PPBE process, DoD develops the programs (equipment, technology, research and development, force configuration, infrastructure, etc.) required to support the planning objectives of the JPG and SPG.²¹ In even years (or “on years”), the first event of the programming phase is the DoD components’ development of Program Objective Memorandums (POMs). These initial POMs are documents reflecting a service’s priorities for allocation of resources across programs in their respective areas and include a risk assessment of the proposals. In developing POMs, the services follow the planning guidance provided by the SPG and JPG in choosing the best combination of programs that provide organizations, forces and equipment required to meet the objectives set forth in the phase. To choose this best combination of programs effectively, the services include inputs from the COCOMs, resource sponsors and the service headquarters. POMs cover a six year period that coincides with the Future Years Defense Plan (FYDP).²² In odd years (or “off years”), the first event of the programming phase is the services’ development of Program Change Proposals (PCP). These initial PCPs are developed by the respective services to provide

¹⁹ R. E. Sullivan, Jr. “The Department of Defense Planning, Programming, Budgeting and Execution (PPBE),” *The U.S. Naval War College* (January 2004): 3.

²⁰ Ibid.

²¹ CAPT Lisa Potvin. *Practical Financial Management: A Handbook for the Defense Department Financial Manager*, 7th Ed. (Monterey, CA: Naval Postgraduate School, November 2007), 44.

²² R. E. Sullivan, Jr. “The Department of Defense Planning, Programming, Budgeting and Execution (PPBE),” *The U.S. Naval War College* (January 2004): 12.

minor updates to the approved POMs in the “off years” to account for events that have impacted programmatic needs. Thus, the services’ initial POMs (in even years)/PCPs(in odd years) move to the next step in the programming phase; the program review process.

The program review process occurs at the SECDEF level and ensures that the POMs/PCPs are aligned with the guidance provided by the current versions of the QDR, SPG and JPG, respectively. POMs/PCPs are reviewed by a combined team of analysts (known as the Program Review Group or PRG) from the services, Joint Staff and OSD to assess the level of compliance, provide alternatives to the current programs and assess the risk associated with the POM/PCP. This analysis is then vetted through the Three-Star Group, a group of 3-Star programmers from each of the services, who provides the final programmatic recommendations from this process to the SECDEF. Concurrent to the OSD programming process, the JCS also review the services POM/PCP submissions and provide its views, on the services’ proposals and associated risks, to the SECDEF in the form of the Chairman’s Program Assessment (CPA). If required, (in the opinion of the CJCS), the CPA will also provide alternative programmatic recommendations for achieving the capabilities necessary to satisfy the objectives set forth in the planning phase.²³ The CPA and inputs from the 3-Star Group are then forwarded to the Senior Leadership Review Group (SLRG). This group, chaired by the Deputy SECDEF, through the annual issuance of the Program Decision Memorandums (PDMs) approves the POMs/PCPs as presented or provides instruction on necessary modifications to the services.²⁴ The issuance of the PDMs signals the end of the programming phase and through this process and its final outputs, the SECDEF allocates DoD’s resources among competing/complementing programs to match capabilities with objectives. With the PDMs issued and the changes incorporated, the services hold approved POMs/PCPs. Figure 4 depicts the even-year programming and budgeting phases, and Figure 5, the odd-year programming and budgeting phases. Only those terms relevant to this study will be described.

²³ R. E. Sullivan, Jr. “The Department of Defense Planning, Programming, Budgeting and Execution (PPBE),” *The U.S. Naval War College* (January 2004): 4.

²⁴ Ibid.

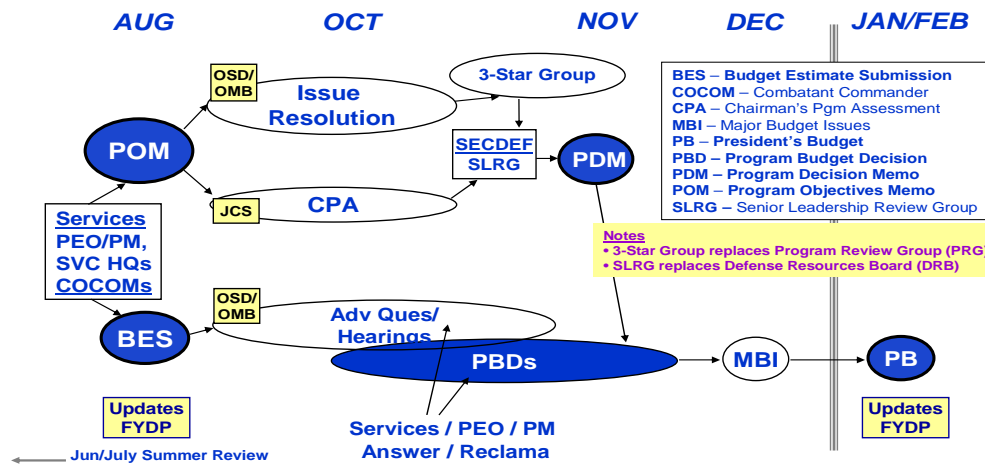


Figure 4. Even Year Programming/Budgeting Phases²⁵

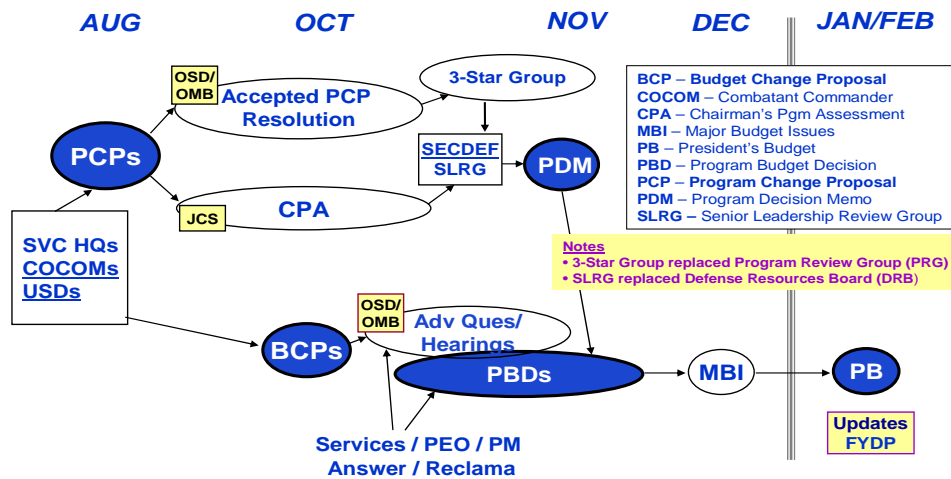


Figure 5. Odd Year Programming/Budgeting Phases²⁶

²⁵ Philip Candreva, *PPBE Slides*, MN3154, Graduate School of Business and Public Policy, (Monterey, CA: Naval Postgraduate School).

²⁶ Ibid.

3. The Budgeting Phase

The budgeting phase begins with the service components converting the programmatic decisions from their original POM/PCP submissions into detailed cost estimates capable of funding the programs within the POM/PCP for the budget year.²⁷ These cost estimates are submitted by the services in even years to OSD in the form of Budget Estimate Submissions (BES). Each BES contains four years of budgetary data; the previous, current and next two years. In odd years, the services provide OSD with Budget Change Proposals (BCPs) to make changes to the baseline budget as events or issues dictate. Since the budgeting phase begins before the programming phase ends, the BES/BCP is refined as it moves through its own review process and is affected by the programmatic decisions announced within the PDM.

BES submissions from the services are compiled utilizing inputs from all levels within their respective organizations. Guidelines for budget requests are submitted from the service heads down through their organizations. Budget requests originate at the field activity level, travel back up through the chain of command, and eventually end up at the service headquarters. At all levels, these budget requests are checked for accuracy, correct costing procedures and compliance with guidelines. Issues are resolved throughout the process through budget hearings, the changing of budget requests, and the inclusion of additional inputs from operational commands and resource sponsors.²⁸ With budget requests from the entire organization submitted, combined and issues resolved, the services hold their completed initial BES.

After the services have reviewed their BES/BCP, it is submitted for review to OSD and OMB. Both of these agencies ensure compliance with the fiscal guidance provided by the JPG, OMB circulars and any other guidance issued.²⁹ The Under Secretary of Defense Comptroller (USD(C)) verifies this compliance through holding

²⁷ L. R. Jones and Jerry McCaffrey, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 101.

²⁸ Ibid., 114.

²⁹ CAPT Lisa Potvin, *Practical Financial Management: A Handbook for the Defense Department Financial Manager*, 7th Ed. (Monterey, CA: Naval Postgraduate School, November 2007), 50.

budget hearings to request additional supporting information, reviewing pricing information on the programs and ensuring the budgeting decisions align with the SECDEF's programmatic decisions.³⁰ Once this review is complete, the USD (C) submits documents called Program Budget Decisions (PBDs) to the Deputy SECDEF that represent valid, correct and fully vetted (below SECDEF level) funding estimates for the programs within DoD. After Deputy SECDEF approves the PBDs, they are provided to the services. The services are then allowed to appeal any PBDs with which they disagree. Any large dollar issues that cannot be resolved are pushed forward as Major Budget Issues (MBIs). Some MBIs may have to be ultimately resolved at the SECDEF or presidential level. After all final budgeting decisions are resolved (if not agreed upon), the USD (C) combines all the budgetary data for DoD and submits them for inclusion in the President's Budget (PB).

4. The Execution Phase

The final phase of the PPBE process, the execution phase, begins with Congress authorizing and appropriating the funding for DoD. Once these steps are complete, DoD submits specific and phased plans on how it intends to spend its funding to Congress as part of the apportionment process. When the apportionment plan is approved, DoD begins distributing budget authority to its various components for further distribution down to command level for commitment, obligation, expenditure and outlay. During the execution phase, comptrollers and managers at all levels of the federal government and DoD monitor the spending process for adherence to the original plans set forth in the allotment process and the planning, programming and budgeting phases.³¹ DoD conducts a mid-year review to determine if funding within the department should be shifted to cover new or higher priority needs. At the end of the fiscal year, DoD reconciles its

³⁰ R. E. Sullivan, Jr., "The Department of Defense Planning, Programming, Budgeting and Execution (PPBE)," *The U.S. Naval War College* (January 2004): 12.

³¹ L. R. Jones and Jerry McCaffrey, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 102.

accounts with appropriations, closes its annual accounts and concludes the execution phase by initiating auditing and reporting programs within its various accounts/agencies/services.³²

PPBE is DoD's current resource allocation system that links spending to programs that support the nation's security objectives. Through planning, programming, budgeting and execution, DoD seeks to allocate the nations resources efficiently and effectively. This section has provided a U.S. theoretical map of how the PPBE System is designed to function and provides a base of comparison against the way the PPBE System is currently functioning.

C. PPB SUCCESS FACTORS

As discussed previously, the reign of PPB as the government-wide budgeting system was short lived. This section reviews previous studies on the success of PPB, the factors that led to DoD's success, and compares the agencies where PPB failed in relation to those success factors.

Robert McNamara was the ultimate advocate of the PPB system. He had used program budgeting at Ford Motor Company³³. He believed in this form of budgeting and introduced the system within DoD. As the Secretary of Defense, he was able to order the implementation of PPB and possessed the power to see it through. This was an easy sell for McNamara; however, because he understood program budgeting so well, he was able to use the analytical tools that comprised the system to make better decisions for the organization and get the organization onboard with his belief in the system.³⁴

The Ford system was adapted and specifically fit the needs of DoD. It was not a one-size-fits-all adoption from another agency within the federal government. It was also ideal for implementation within DoD because of the inherent needs for planning both within the PPB system and within DoD. The introduction of planning into a budgeting

³² L. R. Jones and Jerry McCaffrey, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 102.

³³ Ibid., 89.

³⁴ Aaron Wildavsky, "Rescuing Policy Analysis from PPBS," *Public Administration Review*, Vol. 29, No. 2, (March-April 1969): 191.

system was not much of a stretch for DoD as it was accustomed to continuous operational planning for actual events as well as contingencies.³⁵ Tying dollar amounts to programs that provided capabilities to satisfy objectives was not an illogical step for DoD. Service components within DoD saw the opportunity for more funding if they were able to use the system well and effectively tie their programs to objectives.³⁶

The DoD workforce was comprised of people with unique, analytical skill sets required to conduct this type of analysis and the experience necessary to run a functioning PPB system. This small group of people within DoD had honed their systems analysis skills at the RAND Corporation in the 1950s and had experience applying these techniques within the DoD environment. These personnel had developed their own language, analytical methods and theories for matching capabilities with policy objectives for DoD within the PPB system.³⁷ This greatly eased the implementation of the PPB system because personnel who understood how to use and manage the system existed within the organization.

The structure of DoD mitigated much of the need for a phased implementation of the PPB system. PPB did not require much acceptance of the system at the lower levels of DoD. Personnel at the lower levels of DoD are seldom involved in the decision making process that chooses among multi-million dollar weapons systems and other high dollar procurement items that comprise the majority of the defense budget.³⁸ Therefore, the rank and file soldier, sailor or airman's acceptance of the PPB system was not necessary. "McNamara's analysts at OSD fought budget battles with Generals and Admirals...not sergeants."³⁹ While this did create the need for deep understanding of the PPB system at the highest levels of DoD, it reduced the amount of understanding necessary at lower levels, and thus, reducing the need for a phased/incremental introduction.

³⁵Aaron Wildavsky, "Rescuing Policy Analysis from PPBS," *Public Administration Review*, Vol. 29, No. 2, (March-April 1969): 191.

³⁶ Ibid., 192.

³⁷ Ibid., 191.

³⁸ Ibid., 192.

³⁹ Ibid.

Four factors explain DoD's successful implementation of PPB:

- It possessed a Secretary of Defense in Robert McNamara who understood and supported the PPB System.
- PPB was tailor-made for DoD (as it was the first agency to adopt the system) and DoD believed that PPB could benefit the organization.
- DoD had personnel trained and experienced in disciplines necessary to perform and analyze the technical and analytical functions PPB required.
- DoD did not introduce PPB incrementally but was structured in a way that mitigated the need for an incremental roll-out of the system.⁴⁰

While existence of these success factors did not ensure the successful implementation of PPB within DoD, their presence did increase chances for success and helped deter potential problems that could have impeded the introduction of this type of system. The implementation of PPB was not so successful or long lived in the other federal agencies outside of DoD. These organizations did not have enough of a combination of the four success factors to allow PPB to gain traction and be implemented in a manner that worked for each individual agency. To clarify further the reasons PPB failed as the singular federal budgeting system, the next section describes those agencies where PPB failed in the context of the four DoD success factors.

The agencies where PPB failed (all of the federal government agencies sans DoD) were domestic agencies with much of their efforts centered around the management of social issues. These are different organizations other than DoD with fundamentally different missions. Many of the reasons that PPB was successfully implemented in DoD are the same reasons that the PPB system failed as a budgeting system for the other domestic agencies.

None of the non-DoD federal agencies had a top leader who had near the level of understanding of program budgeting as Robert McNamara. Most agencies had few if any leaders who had ever come in contact with the concept of program budgeting. It was a foreign concept. Thus, many of the top leaders within non-DoD agencies were unable to

⁴⁰ James E. Frank, "A Framework for PPB Success and Causality," *Administrative Science Quarterly*, Vol. 18, No. 4, (December 1973): 540.

understand PPB the system much less use the analytical tools provided by PPB.⁴¹ Since direction in any organization generally comes from the top, it is nearly impossible to implement a system not understood by the leadership. The lack of top-down support for implementation created confusion and frustration at the lower levels.

Program budgeting had worked successfully as a budgeting system for DoD for several years before its installation as the budgeting system for all federal agencies. Also, because of its success at DoD, the PPB system was taken as an “off the shelf one-size-fits-all” budgeting system for the entire federal government. Insufficient attention was paid to the fact that rather than the large dollar acquisition programs that are ubiquitous in DoD and ideally suited for program budgeting, most non-DoD agencies deal with a larger number of smaller dollar amount domestic and social programs.⁴² Additionally, the pervasive “plan for everything at all levels” environment that was inherent to DoD and aided the transition to program budgeting was not as common in other agencies. Both of these factors were ignored when PPB was mandated across all federal agencies. Therefore, these agencies found themselves saddled with an alien budgeting system that did not match the needs and capabilities of their organizations.⁴³ Besides the immediate mismatch of system to agency, the benefits of adopting the PPB system were also unidentifiable to the agencies; the availability of federal funds decreased after the roll-out of the PPB system because of the new level of scrutiny required by program budgeting.⁴⁴ This provided the agencies with less reward for adopting PPB and effectively translating programs into policy objectives. Therefore, ultimately, many agencies adopted a viewpoint that there was little incentive to work hard in adopting a system that was not designed to mesh with their objectives or deal with the issues affecting their organizations.

⁴¹ Aaron Wildavsky, “Rescuing Policy Analysis from PPBS,” *Public Administration Review*, Vol. 29, No. 2, (March-April 1969): 193.

⁴² Ibid.

⁴³ Allen Schick, “A Death in Bureaucracy: The Demise of Federal PPB,” *Public Administration Review*, Vol. 33, No. 2, (March-April 1973): 147.

⁴⁴ Aaron Wildavsky, “Rescuing Policy Analysis from PPBS,” *Public Administration Review*, Vol. 29, No. 2, (March-April 1969): 193.

One of the most glaring problems with installing PPB across the federal agencies was that few possessed the expertise and experience to run the mechanisms of program budgeting. The non-DoD agencies lacked personnel who understood policy analysis, who were capable of creating valid policy objectives and then performing the analytical functions to choose the programs that met these objectives. These agencies lacked the applicable theories, language, and experience to formulate the objectives and corresponding programs necessary to deal with the social issues facing their organizations.⁴⁵ Additionally, many agencies lacked the proper data systems and the personnel capable of managing the data systems required to produce accurate work and cost reporting; systems that should have been present and functioning from the previous performance budgeting push.⁴⁶ Without these systems properly functioning and a lack of personnel with knowledge in performing the operations of program budgeting, non-DoD agencies found themselves awash in data with no ability to turn the data into useful information. These agencies were ultimately unable to perform the critical PPB function of “linking actions with impacts.”⁴⁷ Without the ability to link actions to impacts, there is no program budgeting and there is no basis for being able to choose the best and most efficient programs capable of satisfying objectives.

For the government-wide installation of the PPB system, an all-at-once implementation was chosen. Little attention was paid to the problems associated with implementing the system in this manner. An instantaneous capability to perform analytical exercises such as analysis of alternatives and cost benefit analysis was expected by PPB’s installers merely because the systems implementation had been ordered.⁴⁸ In addition to technical factors, little attention was paid to the fact that, unlike DoD, a system such as PPB would permeate much lower levels of many of the other

⁴⁵ Aaron Wildavsky, “Rescuing Policy Analysis from PPBS,” *Public Administration Review*, Vol. 29, No. 2, (March-April 1969): 193.

⁴⁶ Allen Schick, “A Death in Bureaucracy: The Demise of Federal PPB,” *Public Administration Review*, Vol. 33, No. 2, (March-April 1973): 153.

⁴⁷ Aaron Wildavsky, “Rescuing Policy Analysis from PPBS,” *Public Administration Review*, Vol. 29, No. 2, (March-April 1969): 493.

⁴⁸ James E. Frank, “A Framework for PPB Success and Causality,” *Administrative Science Quarterly*, Vol. 18, No. 4, (December 1973): 541.

federal agencies.⁴⁹ Program decisions within DoD are made at the highest levels of the organization with members at the lowest levels having little knowledge or input into the programs. Non-DoD agencies deal with social issues, and therefore, have personnel at all levels who are experienced, know what programs will work effectively for the agency and will disagree with programs they do not favor. This deeper penetration of the PPB system into the non-DoD agencies along with the lack of attention paid to technical factors created resistance towards adoption of the system. Both these factors could have been further mitigated with an incremental installation of the PPB system. Installing the system in phases, rather than all at once, would have allowed more time to develop the technical capacities required by the system and allowed lower level personnel to become more comfortable with the system. An incremental implementation would also have allowed the non-DoD agencies to determine where and if program budgeting worked within their organizations and also to tailor the system to meet the needs of their agencies.

D. CONCLUSION

This chapter has provided an overview of the current theoretical purpose and processes of PPBE, a look at the PPB success factors that aided DoD's implementation of the system, and a description of the federal agencies where PPB failed in relation to DoD's success factors. PPB, through thorough planning and analysis, is designed to provide the best and most efficient combination of programs that fit within budget constraints and satisfy the nation's national security objectives. This form of budgeting, program budgeting, was successfully introduced into DoD in the 1960's. PPB was successfully implemented in DoD because DoD was commanded by a strong leader who understood and supported PPB; the PPB system was specifically tailored for use within DoD; agency personnel had the experience and expertise necessary to use and manage the system; and the structure of DoD mitigated the need for an incremental installation of the system. The agencies where PPB failed lacked enough of a combination of these four

⁴⁹ Aaron Wildavsky, "Rescuing Policy Analysis from PPBS," *Public Administration Review*, Vol. 29, No. 2, (March-April 1969): 194.

factors to allow a successful implementation of the PPB system. With PPB theory and the history of program budgeting covered, the next chapter provides a description of normal baseline and supplemental methods for funding DoD.

III. FUNDING POST 9/11 GWOT

This chapter discusses the formal budget process used by the Department of Defense (DoD) and Congress to authorize and appropriate federal spending. Both the annual and supplemental budget processes are covered examining the differences between the two. The chapter concludes with a discussion of the supplemental practices used in DoD since 9/11.

A. ANNUAL BUDGET PROCESS

Under the Constitution, Congress is responsible for developing and supporting the Armed Forces of the United States. The Congress accomplishes this requirement by evaluating and enacting annual defense budgets. Programs created and sustained through the defense budget directly influence the capability of the U.S. Armed Forces to defend the country and protect national interests. The annual defense budget process involves three main phases: formulation of the defense budget request by the executive branch, congressional consideration of the proposed budget request, and execution of the budget by DoD after budget authority has been granted by Congress.⁵⁰

1. Formulation

The defense annual budget process begins with the annual budget request through the White House Office of Management and Budget (OMB). The budget request for the subsequent fiscal year is formally submitted to Congress by the President no later than the first Monday in February of the current fiscal year. The formal process used by DoD for the formulation of the annual budget is the Planning, Programming, Budgeting, and Execution (PPBE) System. This system is designed not only to prepare the annual

⁵⁰ Mary T. Tyszkiewicz and Stephen Daggett, “A Defense Budget Primer,” *CRS Report for Congress* December 9, 1998, 19.

defense budget for submission to Congress but is also the principal instrument through which DoD organizes its own internal, long-term financial plan for allocation of defense resources.⁵¹ The PPBE process was examined and discussed in Chapter II.

2. Congressional Process

The next phase in the annual budget process involves congressional action on the proposed defense budget and consists of three actions. The first formal action is the development of the Concurrent Budget Resolution (CBR). The Congressional Budget Act of 1974 mandated the budget resolution as a means for congress to establish the overall national budget priorities. The budget resolution sets minimum and maximum funding levels on the amount of total budget authority and expenditures. It also allocates spending levels among different functional areas such as the national defense budget.⁵² In addition, the Concurrent Budget Resolution establishes separate target amounts for discretionary and mandatory spending. Discretionary funds must be appropriated on an annual basis, whereas mandatory spending, also known as direct, is dictated by law. Medicare and Social Security are examples of mandatory spending programs. Therefore, mandatory funding may only be adjusted if Congress amends the associated statutes.⁵³

Within six weeks after the President has submitted the defense budget request, the House and Senate defense authorization and appropriation committees submit their opinions and estimates to the budget committees. The Senate Budget Committee is expected to report its form of the budget resolution by April 1. Congress is to finalize action on the budget resolution by April 15th; however, history has revealed that these schedules often slide and there have been times when Congress did not pass a concurrent budget resolution at all.⁵⁴ It is important to be aware that the annual budget resolution merely determines overall targets for the defense budget authority and outlays; the

⁵¹ Mary T. Tyszkiewicz and Stephen Daggett, “A Defense Budget Primer,” *CRS Report for Congress* (December 9, 1998): 27.

⁵² Jerry L. McCaffery and L.R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich: Information Age Publishing, 2004), 32.

⁵³ Mary T. Tyszkiewicz and Stephen Daggett, “A Defense Budget Primer,” *CRS Report for Congress* (December 9, 1998): 32.

⁵⁴ *Ibid.*

resolution does not indicate how the funds should be distributed to the specific defense programs. Critical decisions regarding the funding priorities for defense programs are decided in the defense authorization and appropriation bills.

The second formal action in the congressional defense budget process is the authorizing legislation. Authorization laws establish, continue, or modify defense programs and are required for Congress to appropriate funds to the designated programs. Authorization acts identify the scope of the programs and authorize funding levels to implement the programs successfully.⁵⁵ The authorization process does not provide budget authority for the defined programs. Rather, budget authority is created through the appropriation acts.

The House and Senate Armed Services Committees are responsible for reporting defense authorization legislation to Congress. Defense authorization bills are drafted in each committee; differences between the House and Senate versions of the bill are resolved in conference committees. The results are then returned to each chamber for final passage and the approved legislation is forwarded to the President for approval or veto. DoD is prohibited from spending money on new or existing programs without authorization.⁵⁶ There are no laws governing the timeline for action on authorization acts and defense authorization bills have been delayed at times past the beginning of the new fiscal year.

The third formal action in the congressional defense budget process is appropriation, which provides budget authority to fund the defense programs. Congress enacts 13 regular appropriation bills annually that are drafted by the House and the Senate Appropriation Committees. The majority of funding for the DoD is provided in the defense appropriation bill and the military construction bill.⁵⁷

⁵⁵ Mary T. Tyszkiewicz and Stephen Daggett, "A Defense Budget Primer," *CRS Report for Congress* (December 9, 1998): 34.

⁵⁶ Jerry L. McCaffery and L.R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich: Information Age Publishing, 2004), 140.

⁵⁷ *Ibid.*, 142.

Historically, the defense appropriation bill has been the last bill to be considered, and at times, the approval was delayed beyond the beginning of the new fiscal year. When this situation occurs, a Continuing Resolution Appropriation (CRA) is enacted by Congress to provide budget authority until the defense appropriation bill is approved. Restrictions normally apply to the enactment of a CRA, which may include specified time periods and funding levels of current programs at prior fiscal year limits.⁵⁸ It is worthwhile to note that considering the defense appropriation bill last prior to the end of the fiscal year has been reversed in the past few years. Possibly, due to national security issues and public awareness, the defense appropriation bill has recently become the first bill considered in Congress.

3. Budget Execution

The third phase of the annual budget process is budget execution, which begins with the Department of Treasury authorizing federal agencies to draw funds from an account established by an appropriation. This process allows the budget authority for an appropriation to be available for obligation for the purposes outlined in the legislation. Spending of allocated funds is closely monitored by DoD budgeting staffs, comparing actual spending rates to the projected rates throughout the fiscal year⁵⁹. Circumstances do exist where funds may be reprogrammed or transferred to other accounts or programs. For example, pay raises may not be fully funded in the defense appropriations bill and money must be reprogrammed from other accounts to meet payroll requirements. Also, procurement, medical, or other operating costs grow beyond planned levels and additional funds are needed. Under these conditions, procedures are formulated between congressional committees and executive branch agencies and funds can be obligated for

⁵⁸ Mary T. Tyszkiewicz and Stephen Daggett, "A Defense Budget Primer," *CRS Report for Congress* (December 9, 1998): 41.

⁵⁹ Jerry L. McCaffery and L.R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich: Information Age Publishing, 2004), 37-38.

purposes other than those previously approved.⁶⁰ The budget execution phase is primarily a management process where DoD obligates and expends funds in accordance with program goals and objectives.

Figure 6 depicts the annual defense appropriation process from introduction of the President's budget request through Congress to passage of the appropriation bill into law.

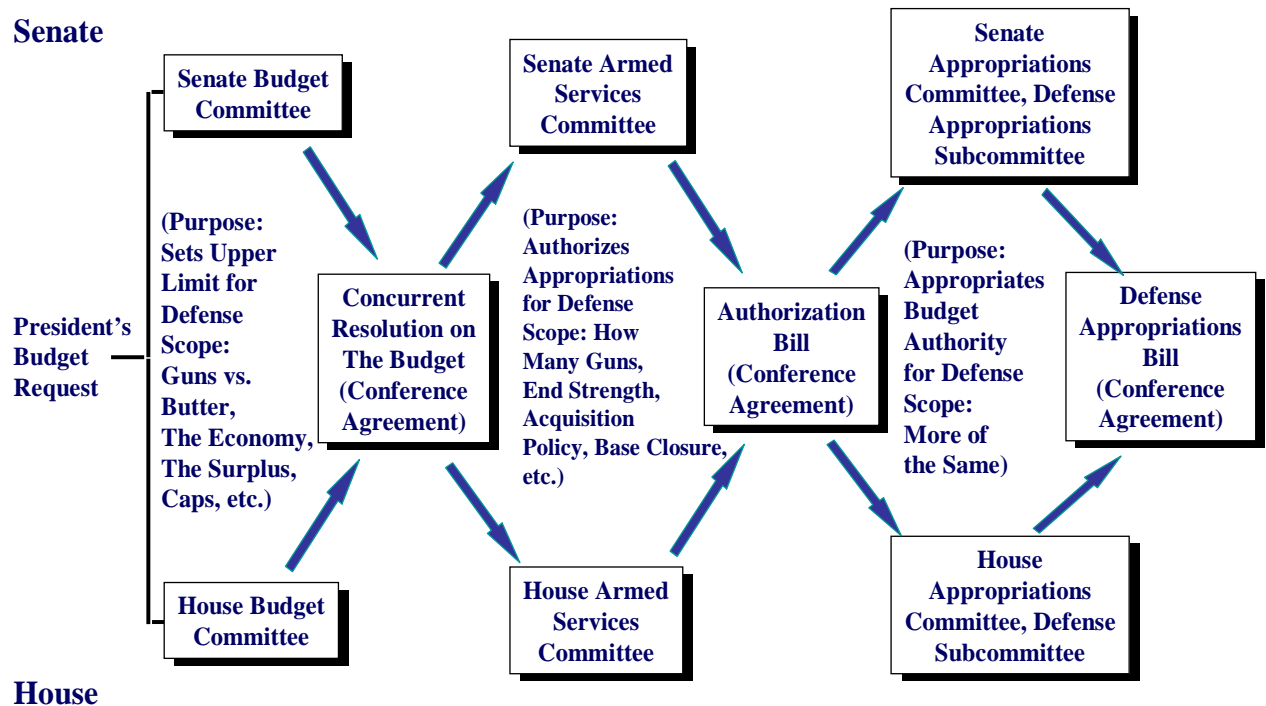


Figure 6. The Defense Budget Process⁶¹

B. SUPPLEMENTAL APPROPRIATION PROCESS

Supplemental appropriations provide additional funding to government programs in the current fiscal year, usually for national military contingencies or natural disaster emergencies. Such spending cannot always be anticipated and included in the annual

⁶⁰ Mary T. Tyszkiewicz and Stephen Daggett, "A Defense Budget Primer," *CRS Report for Congress* (December 9, 1998): 48.

⁶¹ Douglas Brook, *House and Senate Congressional Committees*, GB4053, Graduate School of Business and Public Policy, (Monterey, CA: Naval Postgraduate School).

budget process since the need for emergency funding tends to arise quickly and is not easily forecasted.⁶² In recent years, however, supplemental appropriations have been the primary mechanism for DoD to fund military contingencies in Afghanistan and Iraq.

The executive branch of the government typically determines the timing and size of the supplemental appropriation request submitted to Congress; however, supplemental appropriations can be initiated by Congress. Defense supplementals are commonly valued with precise amounts, whereas natural disaster supplementals have a tendency to be an aggregated estimate.⁶³ Supplemental requests may be proposed prior to, with, or subsequent to the transmittal of the annual budget document. Supplemental requests that are known at the time of the annual budget submission are generally submitted to Congress with the annual budget request rather than later as a separate request.⁶⁴ In addition, supplemental requests must include the specific date when funds are required for obligation, a statement of actual and estimated costs for the year prepared in a quarterly report, and a statement of actual obligations by month for the previous three months.⁶⁵

Most wartime defense supplemental requests contain an emergency designation. By law, the emergency designation allows the discretionary spending caps to be raised for the associated budget authority and outlays. The term “emergency” is not formally defined in budget law and has become a source of controversy and contention.⁶⁶ In 1991, OMB attempted to define an “emergency requirement”. A thorough discussion and examination of this issue was presented by Amanda Evans.⁶⁷ Additionally, the emergency designation procedure adopted by the President and Congress has resulted in

⁶² Congressional Budget Office, *Supplemental Appropriations in the 1990s* (March 2001): 19.

⁶³ Jerry L. McCaffery and L.R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich: Information Age Publishing, 2004), 181.

⁶⁴ Amanda B. Evans, “Long-Term Military Contingency Operations: Identifying the Factors Affecting Budgeting in Annual or Supplemental Appropriations” (Master’s Thesis, Naval Postgraduate School, Monterey, CA, March 2006), 8.

⁶⁵ Office of Management and Budget, *OMB Circular No. A-11 Part 3, Section 110* (June 2005): 1-3.

⁶⁶ Congressional Budget Office, *Supplemental Appropriations in the 1990s* (March 2001): 19.

⁶⁷ Amanda B. Evans, “Long-Term Military Contingency Operations: Identifying the Factors Affecting Budgeting in Annual or Supplemental Appropriations” (Master’s Thesis, Naval Postgraduate School, Monterey, CA, March 2006), 7-10.

combining emergency spending costs in regular appropriation bills and non-emergency spending costs in supplemental bills.⁶⁸ This action has complicated and blurred the line, which separates unanticipated war costs from daily operation and supports costs. Supplemental appropriations follow the same path through Congress as annual budgets. The supplemental process usually occurs at a much more rapid pace, however, due to the emergency designation associated with the request and because only the appropriation committees act on it. In addition, the authorization process is not required, which results in a faster approval time period.

History has revealed that wars require supplemental appropriations. Defense Aid Supplemental Appropriation Acts funded World War II from 1941 – 1945, with the exception of 1944.⁶⁹ President Franklin Roosevelt believed the government had relied too heavily on borrowing to finance World War I, which led to a high rate of inflation. As a result, President Roosevelt mobilized immense amounts of financial resources through increased taxation and the selling of government bonds. He was determined to ensure the higher tax burden was shared equally among the American people and repeatedly advocated the need for shared sacrifice to fund the war with financing within U.S. boundaries.⁷⁰

Subsequent to the outbreak of war in Korea, Congress approved supplemental appropriations for the Department of Defense in FY1951. These funds covered the costs of operations in Korea, as well as a general world-wide increase of military forces. However, this necessity proved to be short-lived and by FY1953 Congress provided all funding for military operations in Korea through the annual appropriation process.⁷¹ During this period of time, President Truman and the House of Representatives increased corporate and individual income taxes and pushed Congress for spending cuts in

⁶⁸ Jerry L. McCaffery and L. R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich: Information Age Publishing, 2004), 201.

⁶⁹ Amanda B. Evans, “*Long-Term Military Contingency Operations: Identifying the Factors Affecting Budgeting in Annual or Supplemental Appropriations*” (Master’s Thesis, Naval Postgraduate School, Monterey, CA, March 2006), 11.

⁷⁰ Robert D. Hormats, *The Price of Liberty* (New York: Henry Holt and Company, 2007), 135.

⁷¹ Stephen Daggett, “Military Operations: Precedents for Funding contingency Operations in Regular or in Supplemental Appropriations Bills,” *CRS Report for Congress* (June 13, 2006): 3-4.

nonessential civilian programs.⁷² These provisions, once again, were the means by which the U.S. funded the war until the costs were integrated into the annual appropriation process.

The era of the Vietnam War was filled with controversial and fiercely debated issues regarding how to fund the war efforts. Many of the same disputes concerning annual versus supplemental war funding aid, which are argued today, began during the Vietnam era.⁷³ Supplemental appropriations were used from FY1965 through FY1969 when war costs exceeded the initial funding estimates. Yet again, the American people were involved in financing the Vietnam War through increased taxes. Additionally, President Johnson was eventually forced to abandon his Great Society social agenda in order to compensate for rising war costs. From FY1970 through the end of the war, funding was provided in regular annual appropriation bills.⁷⁴ The budgeting strategy employed by the Johnson and Nixon administrations lend credence to the ability of war costs to be incorporated in annual baseline appropriations after the initial onset of war. Also, war costs were eventually funded through annual appropriations despite the fact that military troop levels were fluctuating and the duration of the conflict was unknown.⁷⁵

Supplemental appropriations initially funded Operations Desert Storm and Desert Shield in 1991 - 1992. Eventually, the U.S. recovered most of the additional costs of those operations through contributions from allied nations.⁷⁶ Costs declined dramatically after combat operations were over; therefore, additional funding was not necessary in annual or supplemental appropriation bills.⁷⁷ Defense supplemental appropriations did

⁷² Robert D. Hormats, *The Price of Liberty* (New York: Henry Holt and Company, 2007), 189.

⁷³ Amanda B. Evans, "Long-Term Military Contingency Operations: Identifying the Factors Affecting Budgeting in Annual or Supplemental Appropriations" (Master's Thesis, Naval Postgraduate School, Monterey, CA, March 2006), 12.

⁷⁴ Robert D. Hormats, *The Price of Liberty* (New York: Henry Holt and Company, 2007).

⁷⁵ Stephen Daggett, "Military Operations: Precedents for Funding contingency Operations in Regular or in Supplemental Appropriations Bills," *CRS Report for Congress* (June 13, 2006): 6.

⁷⁶ Congressional Budget Office, *Supplemental Appropriations in the 1990s* (March 2001): 17.

⁷⁷ Stephen Daggett, "Military Operations: Precedents for Funding contingency Operations in Regular or in Supplemental Appropriations Bills," *CRS Report for Congress* (June 13, 2006): 6.

not acquire a prominent position again until the end of the decade with funding for peace-keeping missions in Bosnia and Kosovo. Partial costs for these contingencies were submitted in the annual budget and others were funded in emergency supplemental appropriations for FY2000 and 2001. Beginning in FY2002, defense support for these operations was directly appropriated into the annual baseline appropriation as military troop levels maintained a steady pace.⁷⁸

Supplemental appropriations possess symbolic worth in both defense and disaster aid as evident after the terrorist's attacks on September 11, 2001. The American people expected their government to defend and protect them; as a result, a \$40 billion supplemental for aid in the World Trade Center disaster was passed in four days.⁷⁹

C. DIFFERENCES – ANNUAL AND SUPPLEMENTAL

Several differences exist between the annual and supplemental appropriation processes. Supplementals, with an emergency designation, do not contain spending caps to restrict funding limits. This exception causes emergency spending to appear as somewhat “free” even though it still affects the budget deficit or surplus as with annual appropriations.⁸⁰

Additionally, supplemental appropriations are usually passed very rapidly compared to the time-consuming and extensive process involved with passing annual baseline appropriations. During the period of 1974 through 1999, 61 supplemental appropriation bills were passed: 50.8% were requested, passed, and signed into law within a two month period and 86.8% (53 of the 61 bills) were passed within four

⁷⁸ Amanda B. Evans, “*Long-Term Military Contingency Operations: Identifying the Factors Affecting Budgeting in Annual or Supplemental Appropriations*” (Master’s Thesis, Naval Postgraduate School, Monterey, CA, March 2006), 15.

⁷⁹ Jerry L. McCaffery and L.R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich: Information Age Publishing, 2004), 200.

⁸⁰ Congressional Budget Office, *Supplemental Appropriations in the 1990s* (March 2001): 19.

months. These time periods may not appear to be very short but the passage of annual appropriation bills often extend 10 months from introduction to passage, and sometimes longer.⁸¹

Another difference between annual and supplemental appropriations is the amount. In some cases, such as natural disasters, the new spending authority in the supplemental request may be offset by rescissions, or cancellation of budget authority, to other programs. However, defense supplemental requests and appropriations for GWOT since 2002 have amounted to significant net gains in each succeeding year. Also, supplemental defense appropriations tend to fund 100% of the need or requirement whereas annual appropriations are often funded at less than the full level request.⁸²

Introduction and passage of supplemental appropriations clearly have a seasonal distribution. In most years, Congress initiates and approves supplemental appropriations during a four-month period in late winter and spring.⁸³ From 1974 through 1999, 38 of the 61 supplemental appropriations passed during this time period were initiated in June (15) and July (15). The remaining eight were initiated between August and January.⁸⁴ In addition, a look at the timing of supplemental requests to finance the cost of the Iraq War indicates that they were delayed in order to not be considered during the deliberations of annual appropriations. In February 2005, the president submitted his budget request for 2006 and only one week later requested an \$82 billion supplemental for Afghanistan and Iraq.⁸⁵ Likewise, the president submitted his budget request for FY2007 in early February 2006, and ⁸⁶ then on February 16, 2006, he requested a \$72.4 billion supplemental to fund the military operations in Iraq and Afghanistan.

⁸¹ Jerry L. McCaffery and L.R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich: Information Age Publishing, 2004), 189.

⁸² Ibid., 191.

⁸³ Paul Godek, “*Emergency Supplemental Appropriations: A Department of Defense Perspective*” (Master’s Thesis, Naval Postgraduate School, Monterey, CA, 2000).

⁸⁴ Jerry L. McCaffery and L.R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich: Information Age Publishing, 2004), 188-189.

⁸⁵ Robert D. Hormats, *The Price of Liberty* (New York: Henry Holt and Company, 2007), 266.

⁸⁶ Paul M. Irwin and Larry Nowels, *FY2006 Supplemental Appropriations: Iraq and Other International Activities; Additional Hurricane Katrina Relief* (March 10, 2006): 1.

In summary, apparent characteristics distinguish supplemental appropriations from annual baseline appropriations. First, supplementals with an emergency designation, are not restricted to the spending caps normally associated with annual appropriations. Second, supplementals are generally passed quickly. Third, supplemental packages may result in a net decrease due to certain offsets and usually fund 100% of the need. This is different from the funding amounts and levels associated with annual appropriations. Finally, supplementals have a distinct seasonal distribution compared to the structured schedule to which the annual appropriation process adheres.

D. GWOT SUPPLEMENTALS

As established earlier for the past 50 years, wartime supplementals were used historically to fund military contingency operations until they could be included into the baseline budget. Typically, this shift of funding occurs within the first two years of a conflict. However, GWOT funding has not followed the historical trend; supplemental appropriations are still being used as the primary funding mechanism six years after the start of hostilities. In fact, since the start of GWOT, supplemental appropriations have been the primary source of GWOT funding. Figure 7 depicts this fact.

	FY2003	FY2004	FY2005	FY2006	FY2007
Regular DoD Appropriations^a	7.1	-3.5	27.1	50.8	70.5
GWOT Supplementals	62.6	64.9	75.9	66.0	94.5
Other	10.0	0	0	0	0
Totals	79.7	61.4	103.0	116.8	165.0
Supplementals as a % of Entire DoD GWOT Budget	79%	106%	74%	57%	57%

^aFY2003 Appropriations Act included \$7.1B in regular FY2003 defense appropriations for GWOT that DoD did not track; the FY2004 DoD Appropriations Act rescinded \$3.5B in FY2003 war monies.

Figure 7. Budget Authority for GWOT Operations⁸⁷

⁸⁷ Amy Belasco, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations since 9/11," *CRS Report for Congress*, (April 11, 2008): 56.

All of the GWOT funding included in Figure 7 and the GWOT funding included in the annual appropriations bills is funding that has fallen outside of the PPBE process and the multiple layers of vetting that occur during the process.

In addition to the extended timeline on continuing supplemental funding of GWOT, another deviation has occurred where the historical line separating baseline from supplemental items has become blurred. According to a professional staff member of the House Appropriations Committee on Defense:

Initial supplemental funding for GWOT was used to fund the added cost of deploying troops into theater and redeploying them back home. Within the next year, supplemental war funding was expanded to include the costs of ammunition and ordnance. Eventually a cascading effect occurred; procurement items received inclusion in the supplementals because of the added wear and tear the equipment was receiving in theater. Time for delivery on procurement items became a sort of informal litmus test for inclusion in GWOT supplemental funding; if an item could be fielded within 24 months it was okay for inclusion in the supplemental. The most recent iteration of new supplemental items is Research and Development (R&D); the services have tried to tie some modernization items to supplemental funding.

These expanded guidelines for supplemental war funding have allowed inclusion of items that would not have been considered emergent requirements for contingency operations in past conflicts. This has allowed large ticket procurement type items, which have lengthy life cycles and large operating and support costs, to be funded outside the planning and allocation framework of the PPBE process.

Further clouding the issue of GWOT Supplementals is the manner in which they were submitted from FY2001 until the FY2009 President's Budget Submission. According to an Army SES who works on the supplemental process:

Until FY2008, GWOT supplemental requests were submitted to OSD in spreadsheet format with power point presentations included. OSD in turn briefed these power point presentations on Capitol Hill and we (the services) responded to the necessary committees' questions. And we got it in law pretty much the way we briefed it. This process changed when the FY2008 GWOT supplemental request was submitted concurrently with the FY2009 President's Budget and included full budget exhibits.

Despite the fact that the FY2008 GWOT supplemental was submitted alongside the President's budget and was in full budget exhibit format, the trend of enormous GWOT supplementals remains intact for FY2008. A total of \$189.3B in emergency FY2008 supplemental appropriations has been requested for DoD. Through December 2007, Congress had approved \$86.8B which leaves \$102.5B still pending.⁸⁸ Again, these funds are not part of the baseline budget process. Therefore, this creates the illusion that DoD is operating within normal budget parameters.

E. CONCLUSION

Chapter II discussed the checks and balances in the PPBE process to match programs to policy objectives. Chapter III discussed the mechanisms for funding DoD through annual appropriations, supplemental appropriations, how wars were funded historically, and how GWOT has been funded since 9/11. Six years after its inception, GWOT continues to be funded by emergency supplemental appropriations. The line separating baseline and supplemental line items has been blurred to include Research and Development (R&D) and procurement; items that traditionally have not been allowed in supplemental war funding. Despite attempts to increase the transparency of supplemental requests by requiring full budget exhibits and concurrent submission with the President's budget, the trend of large GWOT supplementals persists. With so much DoD funding arriving from outside the PPBE process, Chapter IV defines the environment when PPB was introduced and of post 9/11, compares the environments, and uses the comparison to explain deviations from the PPBE process.

⁸⁸ Stephen Daggett, Susan B. Epstein, Rhoda Margesson, Curt Tarnoff, Pat Towell, and Catherine Dale, "Second FY2008 Supplemental Appropriations for Military Operations, International Affairs, and Other Purposes," *CRS Report for Congress*, (May 8, 2008), 9-12, <http://ftp.fas.org/sgp/crs/natsec/RL34451.pdf> (accessed May 24, 2008).

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IV. ANALYSIS

The PESTEL Analysis is a tool most often used in defining an industry in which a business operates. The PESTEL Analysis has no known creator but is an offshoot of the more commonly known PEST (Political, Economic, Socio-cultural, Technological) and SWOT (Strengths, Weaknesses, Opportunities, Threats) analyses.⁸⁹ Although most commonly used in the private sector, the PESTEL framework can be used as a method for identifying and organizing the issues that affect many different types of industries.⁹⁰ Once completed, the PESTEL framework provides a “picture” of the environment in which the associated business, institution...etc., operates.

Chapter IV performs a PESTEL analysis to define the external influences that affected the environment in which the initial PPB process was implemented. With the initial environment established, a PESTEL analysis of the post 9/11 era is employed to define the dynamic environment in which the PPBE system currently operates. This analysis will be the catalyst for determining the reasons for deviation from the PPBE System. The chapter concludes with the discussion of environmental factors that contributed to the result of funding GWOT outside of PPBE.

A. PESTEL ANALYSIS OF THE 1960/1970 ERA

The PESTEL framework utilizes six categories in organizing the factors that shape an environment: political, economic, socio-cultural, technological, ecological and legal. The political category contains policy, domestic, and foreign issues that significantly contribute to shaping the environment. Economic factors include such items as interest rates, inflation, the stock and real estate markets. Demographic shifts, public opinion, lifestyles and tastes are all factors present in the socio-cultural category. The technological category includes advancements in such areas as products, processes,

⁸⁹ Alan Chapman, “PEST Market Analysis Tool,” <http://www.businessballs.com/pestanalysisfreetemplate.htm> (accessed May 24, 2008).

⁹⁰ L. Cooper, “Strategic Marketing Planning for Radically New Products,” *Journal of Marketing* 64 (2000): 1-15.

services and thinking. Environmental factors such as temperature trends, pollution and acts of nature constitute the ecological category. The legal category contains legislation and litigation that affect the environment being defined.

1. DoD Environment: 1960s/1970s

The following PESTEL analysis focuses on factors that impacted the environment which led to the implementation of the PPB System. The two decades of the 1960's and 1970's were chosen to describe the environments thoroughly that existed immediately before and after PPB's implementation. Previous PESTEL analyses of this era were not found. It was, therefore, necessary to perform a PESTEL analysis by reviewing significant events that occurred during the 1960's and 1970's to include those that in the opinions of the author aided in shaping the environment.

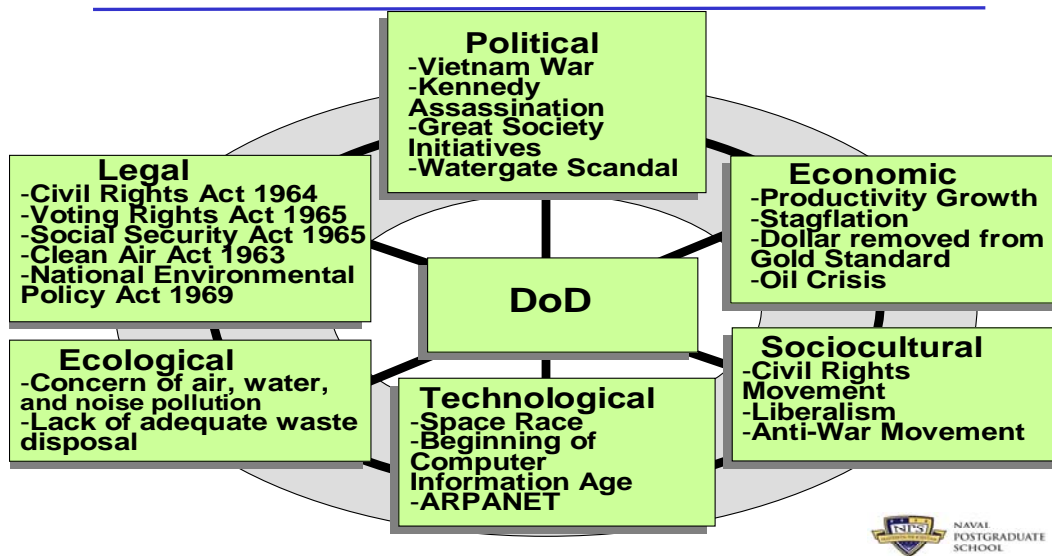


Figure 8. 1960's/70's PESTEL Diagram

2. Political

The political environment surrounding the 1960 – 1970 era encompassed the Vietnam War from 1963 – 1975, the assassination of President Kennedy in 1963, the Great Society reform initiatives and the Watergate scandal that began in 1972.

The Vietnam War was a conflict between the Democratic Republic of Vietnam and the United States, which supported the Republic of Vietnam. The Kennedy administration had recently overcome the failure of the invasion at the Bay of Pigs and the creation of the Berlin Wall. Therefore, Kennedy reasoned that the inability of the United States to acquire control over the spread of communism would negatively reflect upon his reputation and the credibility of the United States.⁹¹ As tension in the war zone heightened, policy-makers in Washington began to deduce that the Republic of Vietnam was becoming politically unstable and military intervention was inevitable. Kennedy ultimately formed the U.S. – South Vietnamese Air Force, which included American pilots and increased the number of military advisors to address the rise in guerrilla activity. However, on November 22, 1963, John F. Kennedy was assassinated and succeeded by Vice-President Lyndon B. Johnson. President Johnson upheld the U.S. support of the Republic of Vietnam but Johnson was more absorbed in his domestic reform initiatives and did not consider the Vietnam War a priority.⁹² The conflict escalated and continued until April 30, 1975 when North Vietnam captured the capital of South Vietnam, Saigon. Effectively, this event ended the Vietnam War, which resulted in a defeat for the United States and the Republic of Vietnam.

In addition to the end of the Vietnam War, a series of political scandals surrounding President Richard Nixon permeated the political environment. The Watergate scandal exposed numerous illegal activities sanctioned and conducted by President Nixon's administration. Some of these activities included campaign fraud, unauthorized political surveillance, illicit wiretapping, and a secret monetary fund, which financed these overt operations.⁹³ Ultimately, the discovery of these crimes led to the resignation of President Nixon on August 9, 1974.

⁹¹ Denise Bostdorff and Steven Goldzwig. "Idealism and Pragmatism in American Foreign Policy Rhetoric: the Case of John F. Kennedy and Vietnam," *Presidential Studies Quarterly* 24, (1994): 515, <http://mcadams.posc.mu.edu/goldzwig.htm> (accessed December 7, 2007).

⁹² Stanley Karnow, *Vietnam: A History* (New York: Penguin Books, 1983), 336 – 339.

⁹³ William B. Dickinson, *Watergate: Chronology of a Crisis*, (Washington, D.C.: Congressional Quarterly Inc., 1973).

As mentioned earlier in the discussion of the Vietnam War, President Johnson introduced a series of domestic programs known as the Great Society during this period. The objective of these social reforms focused on the elimination of poverty and racial injustice. Consequently, major spending in these programs addressed education, medical care, urban issues, and transportation. Medicare, Medicaid, and federal education funding are programs that originated from this social reform initiative and are still in existence today.⁹⁴

This era was filled with volatility as the Vietnam War and Watergate scandal pervaded the political environment. The increased anti-war sentiment among the American public fueled their distaste of the federal government. In addition, the financial burden of the Vietnam War resulted in budget cuts from the Great Society programs introduced by President Johnson. Increased spending between 1965 and 1973 to fund the military operations in Vietnam caused the federal government to operate with a large budget deficit.⁹⁵

3. Economic

Several factors significantly influenced the economic environment during the 1960s and 1970s such as productivity growth, the 1973 oil crisis, stagflation, and the removal of the U.S. dollar from the gold standard.

The 1960's consisted of escalated growth in the U.S. economy and the Gross Domestic Product (GDP). President John F. Kennedy authorized the largest tax reduction in U.S. history when he took office in 1961. The G.I. Bill provided a better educated labor market. By the end of this decade, productivity growth had reached a maximum growth rate much like the one reached earlier in the decade but this state would not remain.

⁹⁴ Joseph A. Califano Jr., "What Was Really Great about the Great Society: The Truth behind the Conservative Myths," *The Washington Monthly*, (1999), <http://www.washingtonmonthly.com/features/1999/9910.califano.html> (accessed December 8, 2007).

⁹⁵ Office of Management and Budget, "Historical Tables, Budget of the United States Government, Fiscal Year 2008," (2007), <http://www.whitehouse.gov/omb/budget/fy2008/pdf/hist.pdf> (accessed January 24, 2008).

Another factor that affected the economic environment of this era was the 1973 oil crisis instigated by the Organization of the Petroleum Exporting Countries (OPEC). In October 1973, OPEC placed an embargo on oil shipments to the United States. In turn, the American public was immediately faced with extreme increases to oil and gas prices and the U.S. underwent the first fuel shortage since World War II.⁹⁶ By the early 1970's, stagflation had infused the U.S. economy with uncontrollable price inflation, increased unemployment, and decelerating economic growth. In response to this economic condition, President Richard Nixon instituted income policies regarding wage and price controls.⁹⁷ However, they were discontinued when it was determined that this effort did not have a substantial affect on inflation.

Furthermore, in 1971, President Nixon removed the U.S. dollar from the international gold standard. Under the gold standard, the U.S. banking system protected the economy's stability and growth. Elimination of the gold standard made it impossible to protect financial savings from confiscation through inflation.

The economic environment of this time began with escalated productivity growth but ended with a period of high inflation and high unemployment known as stagflation. The American public was faced with the oil crisis in 1973, which contributed to an atmosphere of anxiety and unrest. Additionally, the troubled years of 1973 – 1974 were characterized as the worst in the stock market since the Great Depression.

4. Socio-Cultural

The socio-cultural environment of the 1960's was marked by radical change and evolutionary modes of thinking. As children from the post-war baby boom matured into young adults, they began to gravitate away from the idealistic and conservative mindset of the 1950's. The Civil Rights Movement, liberalism, and the pressure from the anti-war activists led to immense social and cultural change throughout the United States.

⁹⁶ David Hammes, "Black Gold: The End of Bretton Woods and the Oil-Price Shocks of the 1970s," *Independent Review* IX, (Spring 2005): 501 – 511.

⁹⁷ "William R. Parke on President Nixon Imposes Wage and Price Controls," *The Econ Review*, <http://www.econreview.com/events/wageprice1971b.htm> (accessed December 4, 2007).

The African-American civil rights movement of this era was not only directed at abolishing racial discrimination but included economic and political freedom from the dominating white population. Boycott efforts were responsible for the eventual desegregation of buses in the United States. The march on Washington in 1963 led by Martin Luther King clearly had a significant impact on the passage of the civil rights law that the Kennedy administration proposed. Additionally, numerous race riots took place during this volatile period of social unrest in major cities across the nation further escalating the disparity between the races.⁹⁸

The liberal ideology of this era fueled the growth in modern feminism regarding lifestyle and economic issues. Agendas focusing on equality in the workplace and domestic violence became pivotal objectives. Moreover, a substantial movement of resistance to the Vietnam War gained momentum as opposition to the military conflict intensified. The social and cultural changes that evolved during this era affected all aspects of life to include laws, education, values, and lifestyles.

5. Technological

A new era of innovation and progress pervaded the technological environment during the 1960's and 1970's with the beginning of the information and computer age, the space race, and the development of the Advanced Research Projects Agency Network (ARPANET).

The United States and the Soviet Union began to engage in a competition of space exploration known as the Space Race. In response, President Kennedy announced Project Apollo in 1961, which consisted of a series of exploration flights in space. The Americans and Soviets were then embroiled in a race to put a man on the moon. In 1969, the United States successfully landed Apollo 11 on the moon. Both nations continued to

⁹⁸ Steven Kasher on *The Civil Rights Movement* (Abbeville Press, 2001), <http://abbeville.com/civilrights/index.asp> (accessed December 9, 2007).

advance in their respective space programs, and in 1975, a Soviet spacecraft docked in space with the U.S. Apollo. This event virtually ended the rivalry of the Space Race between the United States and the Soviet Union.⁹⁹

Another area of technological innovation during this era was the development of the first operational packet-switching network, which eventually evolved into the global internet known today. The Department of Defense created the Advanced Research Projects Agency (ARPA) to develop advancing capabilities that would enable the U.S. to expand the frontiers of technology. In 1962, ARPA launched a computer research program to design and develop the technology of computer networking. Ultimately, this research program conceived the computer networking system known as the ARPANET, and in December 1971, this network successfully linked 23 host computers to each other. This innovation became the basis for future data and voice communication worldwide.¹⁰⁰

The technological environment of the 1960s and 1970s was characterized by new innovations in the computer industry as well as the space program. The computer technologies developed during this era formed the foundation for data and telecommunication transmissions utilized today.

6. Ecological

Rising ecological awareness during the 1960's and 1970's led to pollution regulation in the industrial economies as well as the quest for alternative energy solutions. The American public was becoming acutely perceptive to threats surrounding the ecosystem of the nation. Population explosion, industrial expansion, and growth in automotive commerce in the 1960's were producing mass amounts of product waste. As a result, water channels and waste disposal sites were riddled with disease-infested garbage. Industrial wastes produced acidic smog and automobile emissions contributed to the erosion of the ecosystem. These conditions permeated the environment into the 1970's as waste output increased across the nation. The establishment of the

⁹⁹ "The Space Race" (2001) <http://www.thespaceraace.com/index.php#Encyclopedia> (accessed December 10, 2007).

¹⁰⁰ Peter H. Salus, *Casting the Net: from ARPANET to Internet and Beyond* (Addison-Wesley, 1995).

Environmental Protection Agency (EPA) in 1970 by President Nixon indicated the acknowledgment by the federal government of the harm and degradation that the ecosystem had endured. The EPA was responsible for enforcing environmental laws in addition to conducting environmental assessments and research.

During this era, the American public became acutely aware of pollution effects and industrial waste on the ecological environment. Industrial sewage, automobile emissions and new synthetic materials contributed to the erosion of the ecosystem.

7. Legal

Significant events that occurred during the 1960's helped contribute to the legal environment and enactment of federal laws during that era. The Civil Rights Act of 1964 was a historic piece of legislation, which prohibited segregation in schools and public places. Following this revolutionary governmental decision was the Voting Rights Act of 1965, which aimed to eliminate previous legal tactics that prevented blacks and minorities from voting. The Social Security Act of 1965 resulted from social reform initiatives introduced by President Johnson. This portion of legislation authorized Medicare and provided federal funding for many of the medical costs that older Americans were facing.

In 1966, the Medicaid program was instituted through Title XIX of the Social Security Act. Furthermore, this era was a pivotal turning point in federal regulatory policy regarding the ecological environment. The Clean Air Act of 1963 set emission standards for industrial sites followed by amendments in later years, which set regulatory standards for auto emissions. Also, the National Environmental Policy Act of 1969 was passed and required the federal government to consider the environmental impacts related to potential projects such as building a highway.

The legal enactments detailed above resulted from issues that existed in many of the PESTEL categories during this time, including initiatives introduced by President Johnson in the Great Society program. Furthermore, federal regulatory policies were established to reduce the threat on the ecological environment.

B. PESTEL ANALYSIS OF THE POST 9/11 ENVIRONMENT

The following PESTEL analysis describes the environment that PPBE has operated in since September 11, 2001. Again, a previous PESTEL analysis of this era was not found. This PESTEL analysis was created by reviewing significant events that have occurred since 9/11 and includes those that in the opinions of the authors aided in shaping the environment.

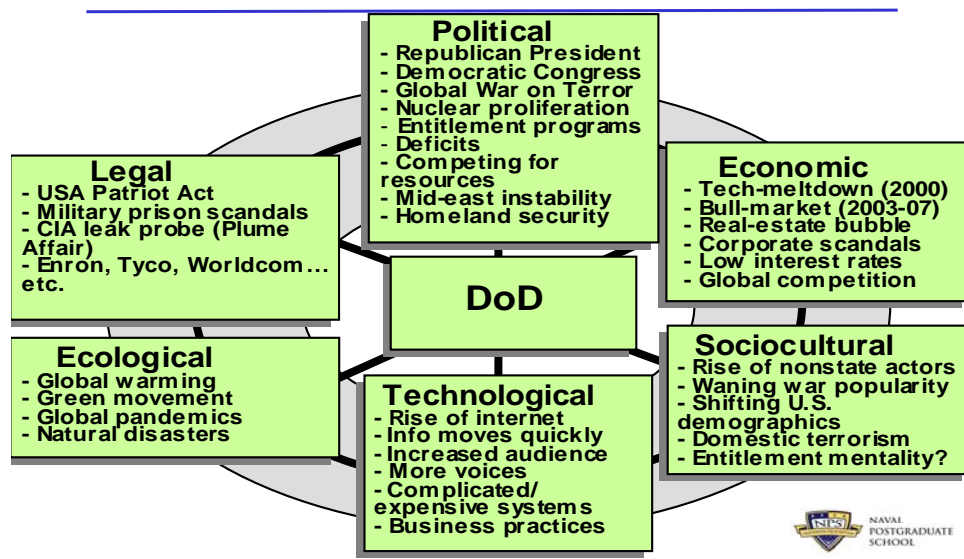


Figure 9. Post 9/11 PESTEL Diagram

1. Political

The Executive Branch of the Government has remained fairly stable throughout the post 9/11 period. George Bush has served as President of the United States throughout this period; however, he was elected by narrow margins. Both of these election results indicate the country was fairly divided on whom to choose as the President. Additionally, Donald Rumsfeld served as the Secretary of Defense during the majority of this period: January 2001 – December 2006.

The legislative branch of the government has changed greatly in the post 9/11 period. When President Bush entered office in 2000, he inherited a Republican House. Between 2000 and 2002, power shifted in the Senate between the two parties four times. From 2002 to 2006, the President enjoyed a Republican majority in both chambers of Congress. The 2002 congressional election results indicated that the public believed the Republican Party was the most capable of leading the country after the events of September 11, 2001. This sentiment shifted though, as evidenced by the 2006 congressional election; President Bush inherited a unified Republican government but lost that advantage in the 2006 elections.

External issues have dominated the post 9/11 political environment. The attacks of September 11, 2001 brought the Global War on Terror (GWOT) and the ensuing invasions of Afghanistan and Iraq. This same period has also seen increased determination and effort by such countries as Iran and North Korea to gain nuclear technology and weaponry. Instability further escalated in the Middle East with the Lebanon War of 2006. All of these occurrences have played a large role in shaping the post 9/11 political environment and have created a feeling that the world is much less safer than it was just six years ago.

Several domestic issues have helped shape the post 9/11 political environment. DoD found itself competing harder for scarce resources. Spending on entitlement programs such as social security, Medicare, and Medicaid has risen from 15% in 1966 to 40% today's federal budget.¹⁰¹ Border security and immigration policies are a source of constant debate and Americans expect these issues to be addressed by the politicians in power.¹⁰² The fact that the federal budget has operated at a deficit in each of the years since 9/11 further complicates this environment with projections of deficit spending

¹⁰¹ United States Government Accountability Office, "Making Tough Budget Choices to Create a Better Future," *United States Government Accountability Office*, PowerPoint, Slide 3, (March 12, 2008) <http://www.gao.gov/cghome/d08604cg.pdf> (accessed June 4, 2008).

¹⁰² Jonathon Weisman, "Senate Revisits Immigration Bill: Foes Vow to Kill Measure within Days," *The Washington Post*, (June 27, 2007), <http://www.washingtonpost.com/wp-dyn/content/article/2007/06/26/AR2007062600941.html> (accessed January 23, 2008).

increasing to 3.5% of the nation's gross domestic product by 2014.¹⁰³ The upward pressure on the federal budget in the form of increased spending on new and existing programs during a time of increased deficit spending places DoD in further competition for resources.

The post 9/11 political environment, thus far, has seen a relatively stable executive branch compared to the reversal of political majorities in the legislative branch. External events have shaped this environment and appear to have ushered in a time of heightened violence. Americans no longer feel that the barrier of safety inside the U.S. borders is as high or as wide as it was before 9/11. In addition, the constituency expects the government to provide more and more, and thus, placing further claims on the same funding for which DoD competes.

2. Economic

The post 9/11 domestic economy could best be described as boom or bust. The tech stock meltdown of 2000 followed by the attacks of 9/11 kept the stock markets depressed until 2003. The stock market began its upturn in 2003 and continued until 2007.¹⁰⁴ During this entire time, interest rates were held at historically low rates, providing the cheap money needed to fuel the ensuing housing boom. Real estate prices soared to historic highs until 2006. At this time, no one is exactly sure of the future direction of the housing or stock markets but the general sentiment is negative. News services report daily on speculation of when falling housing prices will level off and whether or not a recession looms around the next corner. The volatility previously described has become part of the economic landscape of the post 9/11 environment.

Unethical corporate leadership played no small role in the bursting of the tech bubble in 2000. The full implications and extent of this behavior was not known until well after the collapse. In 2001, the public became aware of the corruption engaged in by

¹⁰³ William Gale and Peter Orszag, "The U.S. Budget Deficit: On an Unsustainable Path," *New Economy* (2004): 236.

¹⁰⁴ Dow Jones Industrial Average Performance Chart, <http://bigcharts.marketwatch.com/advchart/frames/frames.asp?symb=djia&time=8&freq=1/> (accessed January 23, 2008).

leaders of such companies as Enron, Tyco and WorldCom. Executives at these companies exploited earnings reports and earnings estimates to drive their companies' stock prices even higher.¹⁰⁵ Once these reports made it into the public domain, the trust that had previously existed between investors and the corporate world disappeared instantly.

In the midst of the boom and bust cycle and the revelations of corporate scandals, the emerging markets of the world flourished. China was finally allowed to enter the World Trade Organization. The economies of China and India have seen unprecedented growth. With their cheap labor and ever increasing middle class, they became economic powers and major destinations for commodities and finished goods of all types. With the rise of these nations, the price of oil, steel and other commodities have risen sharply. The U.S. now finds itself in a fiercer and more expensive competition for these resources.

The economic environment of the post 9/11 is characterized by the boom or bust nature of the stock and real estate markets, the distrust created by widespread corporate scandals and the increased competition for resources between the U.S. and emerging nations. These are broad factors but represent a portion of the environment in which DoD operates.

3. Socio-cultural

The socio-cultural factors that emerge as particularly pertinent to the post 9/11 DoD environment are: the emergence of non-state actors, waning public support for GWOT, domestic terrorism and shifting demographics and expectations.

The attacks of 9/11 introduced America to a new reality; wars can be waged on a nation state by a non-state entity. Al Qaeda presents a new type of enemy to the U.S.; not located in any one country, no set nationality and loose structure made up of many independent parts. This type of enemy represents a major change from traditional opponents.

¹⁰⁵ Krysten Crawford, "The \$6000 Shower Curtain Returns," *CNN Money.com* (January 7, 2005), http://money.cnn.com/2005/01/07/news/newsmakers/execs_trial/index.htm/ (accessed January 23, 2008).

Operations Enduring Freedom (OEF) and Iraqi Freedom (OIF) were widely supported in their initial stages. Support has waned, in particular, for the Iraqi piece of GWOT. Four years into OIF, there are public and Congressional outcries for firm withdrawal dates. GWOT no longer enjoys the widespread support or momentum it experienced in 2001-2003.

Another reported socio-cultural trend is domestic terrorism. Reports of school, mall and church shootings frequent the media channels on a monthly basis. The increased frequency and publication of these types of events lend to the feelings of domestic vulnerability created with the attacks of 9/11.

The last socio-cultural factors to be presented are the shifting demographics of the U.S. and the rising expectations of the citizenry. As the first members of the baby-boomer generation are set to receive their first social security checks, it is evident that a major demographic shift is underway as the percentage of the working population decreases. An unprecedented number of Americans will transition from the workforce to retirement or semi-retired status and many will begin collecting social security checks and will become eligible for Medicare and Medicaid in the near future.¹⁰⁶ This increased drain on the social security trust and new entrants to the Medicare system is widely publicized and will lead to further increases in entitlement spending. Also altering the demographic makeup of the country is the immigration issue. Each year, 1.25 million immigrants enter the U.S. Nearly 500,000 of these immigrants enter the country illegally.¹⁰⁷ Americans are aware of these statistics and expect the issue to be addressed. Other events such as Hurricane Katrina highlight the citizenry's desire for federal assistance when tragedy strikes. The federal government stopped short of an absolute bailout of homeowners in the recent (and ongoing) sub-prime crisis of 2007 but the media presented many opinions stating that the government should have intervened further.

¹⁰⁶ Congressional Budget Office, *Implications of Demographic Changes for the Budget and the Economy* (May 2005): 1-2.

¹⁰⁷ Steven A. Camarota, *100 Million More: Projecting the Impact of Immigration on the U.S. Population, 2007 to 2060* (Washington, DC: Center for Immigration Studies, 2007), <http://www.cis.org/articles/2007/back707.pdf> (accessed May 16, 2008), 1, 6.

The increased role of non-state actors, the public's waning support for GWOT, the prevalence of domestic terrorism and the demographic and expectation shifts within the country are all socio-cultural factors that have greatly affected the post 9/11 environment. The U.S. finds itself fighting a war that the public is tired of against an enemy who has no boundaries and does not follow any rules. Furthermore, shaping this environment is the public's desire for government protection against domestic terrorism, acts of nature and financial debacles like the sub-prime crisis.

4. Technological

The rise in computer information systems and the internet have increased the speed at which information moves, the audience it reaches and the number of information providers. Information moves almost instantaneously between points utilizing the internet and can be dispersed to an almost infinite number of points within the western world. This makes information increasingly available to the public and open to comment and critique. In addition to the transparency these systems have given to DoD's information, these systems have also enabled non-state actors to obtain a spot on the world stage. Technology also permeates the weapons systems the war fighters use to perform their jobs. Weapons systems are increasingly technical and expensive.¹⁰⁸

Unmanned aerial vehicles, laser guided bombs, global positioning systems, and various other technically advanced weapon systems all have a place in GWOT. All come with hefty price tags and are necessary expenses in order to keep pace with the dynamic war front.

Another form of technology currently utilized in the DoD environment is the adaptation of business practices into the public realm. Navy personnel are now encouraged at the field activity level to do such things as: think of return on investment when making decisions, creating metrics to determine and track readiness, and assigning costs to most activities performed. Many of these practices were introduced through New Public Management reform movements in the 1990s in order to modernize the public

¹⁰⁸ Congressional Budget Office Paper, *Long-Term Implications of Current Defense Plans: Summary Update for Fiscal Year 2007* (October 2006): 1-2.

sector and create policy change.¹⁰⁹ The President's Management Agenda (PMA) introduced by George W. Bush in FY2002 was a bold strategy to improve the management and performance of the federal government.¹¹⁰ Additionally, the Program Assessment Rating Tool (PART) was introduced in July 2002 as a diagnostic method to assess the performance of federal programs. At a macro-level, DoD is required to produce financial statements, much like a civilian corporation. All of these tools represent technological advances in DoD which are designed to increase efficiency within the organization.

The post 9/11 environment has been influenced greatly by technology shifts. Information moves quickly and moves through the hands of an ever-increasing number of people. Weapons systems are increasingly sophisticated, and as a result, are costlier to purchase and maintain. Furthermore, business practices from the private sector have been adapted by DoD and are changing many of DoD's processes and environment.

5. Ecological

In the past six years, global warming has moved from relative obscurity to one of the most prevalent social and political issues in the world today. It is the subject of exhaustive debate and has sparked the "green" movement. Car makers are scrambling to produce more hybrid vehicles to satisfy the desires of their "green" conscious consumers. Fields of wind turbines dot the landscape of the U.S., converting wind power into electricity. All of this is in an effort to reverse the global warming trend and the chaos that would result from increased temperatures and rising seas.

Fear of global pandemics has also become part of the fabric of the post 9/11 environment. SARS, HIV, Avian Bird Flu and Mad Cow Disease are all examples of diseases that have caused the collective world to tremble during the past six years. Due to their contagious natures and the large amount of global travel that now occurs, diseases such as these represent real threats to the nation's security. These threats are further

¹⁰⁹ Michael Barzelay, *The New Public Management Improving Research and Policy Dialogue*, (Regents of the University of California, 2001), 157.

¹¹⁰ Office of Management and Budget, "The President's Management Agenda FY2002," www.whitehouse.gov/omb/budget (accessed May 6, 2008).

made real to the public by the large amounts of media coverage they receive. Natural disasters have also become a part of the post 9/11 landscape. Hurricanes Katrina, Ivan, Isabel and Rita were extremely destructive and incurred large costs to the U.S. Other natural disasters such as the Southeast Asia Tsunami and the Kashmir Earthquakes were viewed on the worldwide stage. Many of these events required a direct response by the federal government and DoD and all were absorbed into the psyche of the American people.

Fears of a global warming trend, the threat of global pandemics and the high level of destruction created by recent natural disasters are ecological factors that have affected the post 9/11 environment. Many of these factors compelled responses on the part of the federal government and DoD. In addition to the action and expense incurred, these factors have also exposed many vulnerabilities and the unpredictable nature of the world.

6. Legal

Several legal factors have heavily influenced the post 9/11 environment. These include President Bush's use of signing statements and low number of vetoes, the USA Patriot Act was passed in 2001, the U.S. treatment of GWOT prisoners at military prisons drew close scrutiny, and the involvement of the government in pursuing the perpetrators of the corporate accounting scandals discussed previously in this document.

The issuance of signing statements has long been a practice by U.S. Presidents. Signing statements are generally issued by a President when he signs a bill into law but wants to disagree with the constitutional interpretation Congress used in writing the bill. President Bush issued signing statements with 150 of the bills he signed in his first six years in office.¹¹¹ The President has also altered the historical use of signing statements beyond merely showing support or disagreeing with items within a law and he has used signing statements on numerous occasions as a mode to communicate that he will not uphold certain sections of laws with which he disagrees. Some examples of his use of signing statements for this purpose include "reporting to Congress pursuant to the Patriot

¹¹¹ J. P. Pfiffner, "The Contemporary Presidency Constraining Executive Power: George W. Bush and the Constitution," *Presidential Studies Quarterly* (2008): 38 (1) 138.

Act, the torture of prisoners, whistle blower protections for the Department of Energy, the number of U.S. troops in Columbia, the use of illegally gathered intelligence, and the publication of educational data gathered by the Department of Education.”¹¹² The use of signing statements in this manner has effectively provided the President with the ability of a line item veto. This is further evidenced by the fact that the President has only vetoed nine bills since entering office. This use of signing statements has greatly increased the power of the Executive Office at the expense of the Legislative Branch.

The USA Patriot Act, passed in 2001, provided the U.S. government expansive flexibility in information gathering techniques to pursue suspected terrorists. The act, which passed easily through congress shortly after the attacks of 9/11, has drawn increasing criticism in recent years. Many citizens and politicians question whether the bill goes too far and violates the public’s right to privacy. This bill has become one of the centerpieces of debate in defining the lengths to which government can go in pursuing the war on terror.¹¹³

Reports of mistreatment of prisoners at the military holding facility in Guantanamo Bay, Cuba and the release of pictures of prisoners being tortured at the Abu Ghraib military prison in Iraq have prompted much criticism by human rights groups and congressional investigations. These widely publicized events indicate that the citizenry cares how the U.S. treats its enemies and the tactics used to extract information from them. Legal action was eventually taken against key military personnel involved in the Abu Ghraib scandal.

In addition to the action taken against military criminals, government officials were very active in pursuing the executives involved in the corporate accounting scandals detailed in the economic analysis section of this document. Executives of companies

¹¹² J. P. Pfiffner, “The Contemporary Presidency Constraining Executive Power: George W. Bush and the Constitution,” *Presidential Studies Quarterly* (2008): 38 (1) 138.

¹¹³ Michael B. Mukasey, “The Spirit of Liberty: Before Attacking the Patriot Act, Try Reading It,” *The Wall Street Journal Online* (September 17, 2007), <http://www.opinionjournal.com/editorial/feature.html?id=110005059/> (accessed January 23, 2008).

such as Enron, Tyco and WorldCom were prosecuted and received prison sentences for the roles they played in these scandals.¹¹⁴ These proceedings were highly covered by the media and met with approval by the general public.

The factors detailed above portray a legal environment in which increased probing by the government into the private lives of its citizens has become increasingly questioned. Additionally, the public expects many of the government functions to be more transparent and for criminals of all types (military and otherwise) to be punished for the crimes they have committed.

C. POST 9/11 CONTRIBUTIONS TO PPBE DEVIATION

Multiple environmental factors have allowed the deviation from PPBE through the continued funding of GWOT by supplemental appropriations. This combination of factors has created a post 9/11 DoD budgeting environment that includes: a lack of checks and balances, adoption of a reactionary budgeting system, a perpetuation of the myth that the cost of GWOT is not a financial burden, and continued budgetary pressures due to mandatory spending.

Congressional complicity and the speed of the supplemental process have created a lenient system of checks and balances for DoD funding. The unified government of President Bush and the Republican Congressional majorities made securing supplemental GWOT funding easy during the first five years of the war. This complicity continued with the Democratic majority of the 110th Congress, however. President Bush has proven capable of obtaining the desired amounts of supplemental GWOT funding through Congress by accusing them of placing U.S. troops in jeopardy if a given supplemental is not passed expeditiously. The OMB's Statement of Administrative Policy dated May 15, 2008¹¹⁵ provides an example of this regarding the 2008 wartime supplemental bill. It states:

¹¹⁴ Krysten Crawford, "The \$6000 Shower Curtain Returns," *CNN Money.com* (January 7, 2005), http://money.cnn.com/2005/01/07/news/newsmakers/execs_trial/index.htm/ (accessed January 23, 2008).

¹¹⁵ Office of Management and Budget, *Statement of Administration Policy: H.R. 2642-Supplemental Appropriations Bill of 2008*, (May 15, 2008), <http://www.whitehouse.gov/omb/legislative/sap/110-2/saphr2642-h.pdf> (accessed June 5, 2008).

The committee-reported bill seeks to tie the hands of our military commanders and includes an artificial timeline for withdrawal. Precipitous withdrawal from Iraq would embolden our enemies and confirm their belief that America will not stand behind its commitments. It could lead to a safe haven in Iraq for terrorism that could be used to attack America and our interests around the world, and is likely to unleash chaos in Iraq that could spread across the region. Additionally, the administration strongly opposes attempts to limit the much needed flexibilities of our commanders in the field during this and future conflicts by codifying current policy regarding deployment schedules.

The political factor of a unified government and the socio-cultural factor of fear has allowed the President to have Congress fund GWOT outside of the PPBE process. Congress has also cooperated in the process because it has secured additional funding for its own purposes. As stated by a senior journalist from the Congressional Research Service:

From the Congress' point of view, part of the reason I think that supplementals continue is it makes things easier for Congress in a lot of ways because it's a vehicle for finding the funds for other stuff, in addition to war costs.

The OMB's Statement of Administration Policy dated May 20, 2008¹¹⁶ accuses Congress of adding another \$10B to the President's original 2008 wartime supplemental bill to fund such items as unemployment insurance, Medicare, Medicaid and the Emergency Agriculture Relief Act.

In addition to Congress's complicity, the speed at which the supplemental funding process operates has helped lessen the checks and balances normally associated with DoD funding. As discussed in Chapter III, supplemental appropriations are usually passed very quickly compared to the annual baseline appropriation. Since supplementals do not go through the rigors of the PPBE process, they receive less congressional scrutiny and oversight. The shorter and less in-depth process allows DoD to react more quickly in

¹¹⁶ Office of Management and Budget, *Statement of Administration Policy: H.R. 2642-Supplemental Appropriations Bill of 2008*, (May 20, 2008), <http://www.crispexi.net/omb/legislative/sap/110-2/saphr2642-s.pdf> (accessed June 5, 2008).

funding emerging GWOT requirements. This process also moves quickly because Congress does not want to project an appearance of not supporting the troops through failing to pass wartime supplementals in a timely manner.

While Congressional complicity and the speed of the supplemental process allowed the adoption of a reactionary budgeting system, the desire for timelier information and a lack of an effective national security strategy for fighting the insurgent-type enemy GWOT presents have forced the need for such a reactionary system. The PPBE System is a methodical process with multiple layers; it is not a particularly fast or flexible system. DoD operates in a global environment where information moves almost instantaneously between many points. DoD continues to adopt private sector business practices in an attempt to improve the speed and efficiency of processes to match the changing information environment. Additionally, the introduction of uncertainty into the DoD budgeting environment has increased the need for timely information leading to increased accuracy. These socio-cultural, technological and economic environmental factors have encouraged DoD to create a just-in-time budgeting process (through the continued use of supplemental appropriations to fund GWOT) as a means to respond to the demand for timelier information.

Difficulty in developing an effective strategy for fighting GWOT also aided DoD in migrating to a reactionary budgeting system. PPB functioned well at its inception; programming was easily tied to the policy objectives that accompanied the national defense strategies of containment and mutually assured destruction. These strategies addressed a somewhat predictable enemy, who adhered to borders, wore uniforms, and could be counted on to follow at least some of the laws of armed conflict. The country has yet to develop an effective strategy for dealing with the socio-cultural factor of an insurgent-type enemy in the post 9/11 environment. Insurgents do not operate within set borders, determining their numbers accurately is difficult, and they are an extremely unpredictable foe. Developing a strategy to deal with the enemy presented by GWOT has not been so easy. Without an effective strategy, choosing effective defense programs

is difficult at best. The lack of an effective strategy reduces DoD to planning for all contingencies and forces the need to deviate from the PPBE process by seeking additional budget authority from outside the process.

Perpetuation of the myth that GWOT is not a financial burden has also contributed to the continued deviation from PPBE. This myth has remained believable because the executive and legislative branches of government have effectively navigated the political, socio-cultural and legal factors of the post 9/11 environment by separating war costs from opportunity costs, down playing the high costs of the war, and separating the war cost from the means to pay for it.

As discussed in Chapter III, previous wars were funded by the citizenry through the selling of bonds, higher taxes or social program cuts. This type of war funding forced the nation to choose between war and other uses for the money. The current use of supplementals to fund GWOT has separated war costs from the associated opportunity cost; eliminating the need to choose between funding the war and deploying the funding for other national desires. The administration even worked to maintain this separation in the supplementals; OMB's Statement of Administration Policies, dated May 15¹¹⁷ and 20¹¹⁸, 2008, chastise Congress' attempts to add domestic spending items to the 2008 wartime supplemental request. With a war funded by debt outside the baseline budget process, the President and Congress gain a political advantage because they are not forced to choose between social programs and war and can avoid the associated questions raised by economists.

The attacks of 9/11 occurred during a period of federal budget surpluses. Due to the feeling of economic security, little attention was paid initially to how to fund the war. President Bush encouraged American citizens (and consumers) to return to their normal lives and provided assurances that sacrifices by the citizenry would not be necessary.

¹¹⁷ Office of Management and Budget, *Statement of Administration Policy: H.R. 2642-Supplemental Appropriations Bill of 2008*, (May 15, 2008), <http://www.whitehouse.gov/omb/legislative/sap/110-2/saphr2642-h.pdf> (accessed June 5, 2008).

¹¹⁸ Office of Management and Budget, *Statement of Administration Policy: H.R. 2642-Supplemental Appropriations Bill of 2008*, (May 20, 2008), <http://www.crispexi.net/omb/legislative/sap/110-2/saphr2642-s.pdf> (accessed June 5, 2008).

Further clouding the issue of GWOT funding was a low initial war cost estimate of \$60B and the belief that victory in Iraq would prove quick and decisive. For these reasons, the war was never formally linked to the annual budget process where the budget resolution would have reconciled receipts and expenditures. Once the realization was made that the war would not follow the anticipated path and the budget surpluses disappeared, no action was taken by the administration to create a long-term war funding solution. Once GWOT was recognized as a “long war,” the administration and Congress should have changed the funding mechanism. The cost of the war and the nation’s inability to afford it continue to be downplayed; OMB’s Statement of Administration Policy dated May 15, 2008¹¹⁹ threatens Presidential veto if the 2008 wartime supplemental bill includes a tax increase.

The continued use of supplementals has allowed a separation of war costs from the means to pay for it. Wartime supplemental appropriations directly affect the deficit; however, politicians are able to hide this due to the continued claim that war costs are unpredictable.¹²⁰ The “emergency” name implies they are for an unanticipated expense that will not become a regular part of an annual budget. They are created and passed outside the annual budget process and are not confined by spending caps. These facets of supplemental appropriations play on the political, socio-cultural and economic factors that exist in the post 9/11 environment to create the illusion that DoD is spending within budget constraints. According to a senior journalist from the Congressional Research Service:

The emergency spending mechanism just allows you more flexibility to pretend you’re living within budget limits when you actually don’t want to.

¹¹⁹ Office of Management and Budget, *Statement of Administration Policy: H.R. 2642-Supplemental Appropriations Bill of 2008*, (May 15, 2008), <http://www.whitehouse.gov/omb/legislative/sap/110-2/saphr2642-h.pdf> (accessed June 5, 2008).

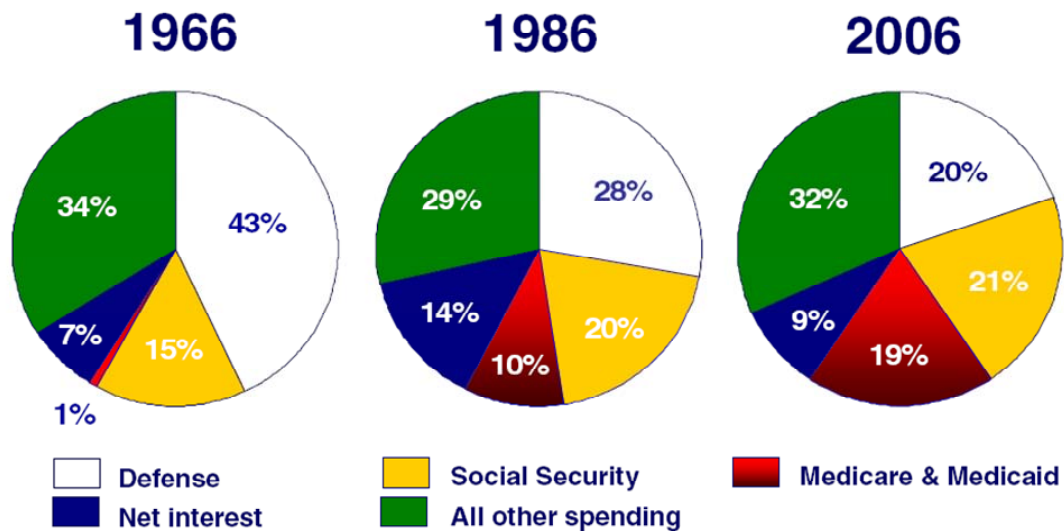
¹²⁰ Irene Rubin, “The Great Unraveling: Federal Budgeting, 1998-2006,” *Public Administration Review* – Washington, DC, 67 (4) (2007): 612.

This is clearly evident as stated by an Army SES who works on the supplemental process:

In the case of the Army, we are practically doubling the size of our budget outside of the (PPBE) process. When the war effort goes away, not all of those costs do.

The funding of the war through debt-backed supplementals allows the U.S. to “afford” the war without having to determine how to pay for it.

The upward trend of entitlement spending is projected to continue. Increased spending in this area applies top down budget pressure on discretionary programs such as DoD. Figure 11 depicts this decrease in federal spending on DoD over time and the corresponding increase in social security, Medicare/Medicaid and servicing of the national debt.



Source: Office of Management and Budget and the Department of the Treasury.
Note: Numbers may not add to 100 percent due to rounding.

Figure 10. Composition of Federal Spending¹²¹

¹²¹ United States Government Accountability Office, “Making Tough Budget Choices to Create a Better Future,” *United States Government Accountability Office*, PowerPoint, Slide 3, (March 12, 2008), <http://www.gao.gov/cghome/d08604cg.pdf> (accessed June 4, 2008).

This top down pressure is occurring at the same time that DoD battles increased costs to train, maintain and properly equip its forces. The socio-cultural factors of the nation's demographic shift and entitlement mentality are competing with DoD for their share of scarce resources. DoD has adapted to this increase in competition by securing additional funding outside the PPBE process in the form of supplemental appropriations.

In summary, deviations from the formal PPBE process are the result of the combination of numerous factors that comprise the post 9/11 environment. This combination of factors has created a DoD budgeting environment that includes: a lack of checks and balances, adoption of a reactionary budgeting system, a perpetuation of the myth that the cost of GWOT is not a financial burden, and continued budgetary pressures due to mandatory spending. The following chapter provides the implications of these continued deviations from the formal PPBE process, provide the authors' observations of base budget deviation, and concludes with limitations of the study and recommendations for further research.

V. CONCLUSIONS OF ANALYSIS, LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

Chapter IV concluded with the effects of the post 9/11 environment on the PPBE process and reasons for continued deviation from the process. The continued deviation from the PPBE process carries consequences. This chapter identifies and discusses these consequences. Additionally, the researchers observed that PPBE deviation is not limited to the addition of supplementals; there is a deviation within the base budget process. These deviations are also identified and discussed within the chapter. The chapter concludes with the identification of the limitations of the study and recommendations for further research.

A. CONSEQUENCES OF CONTINUED DEVIATIONS FROM PPBE

The continued use of supplemental GWOT funding “fixes” the current lack of planning and programming in the PPBE process during the budgeting phase. This indicates that PPBE is no longer the budgeting system being used; some type of just-in-time budgeting system is now operating in its place. The removal of the planning, programming and analytical aspects of PPBE from funding the war has allowed an erosion of budget discipline to occur. This erosion has not been apparent to the casual observer; however, as the supplementals have created the illusion that DoD is operating within budget. The reduced transparency of war costs inherent in supplementals has provided DoD with another source of funding and has reduced its need to make serious trade-offs in choosing between the needs and requirements that are ultimately funded. This method of war funding greatly increases the difficulty in separating the incremental costs to fund contingency operations and longer-term costs that would normally be funded through the base budget process.¹²² While supplemental funding is faster and more flexible than base budgeting, its reactionary nature means less thought goes into spending decisions and less effort goes into ensuring that resources are allocated

¹²² United States, *Global War on Terrorism DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting*, (Washington, D.C.: U.S. Govt. Accountability Office, 2007), <http://handle.dtic.mil/100.2/ADA474031> (accessed March 16, 2008).

efficiently. This can be observed in the Mine Resistant Ambush Protected (MRAP) Vehicles, which have been purchased to transport U.S. troops in Iraq. MRAPs are a necessity because of the protection they provide troops. However, the speed at which these items moved through the supplemental funding left many questions unanswered. According to an Army official:

We don't know what their (MRAPs) disposition will be because they cannot be used in the United States or most places that have paved roads.

Another consequence of continued deviation from the PPBE process is distortion of the defense base budget; the just-in-time budgeting system created by use of supplementals in many cases ignores longer-term expenses. An Army SES who works in the GWOT Supplemental process adds:

A significant portion of what would have been our peace time optempo has gone out of the base and is only in the supplemental. So if we have 22 brigades on the ground in Iraq and Afghanistan, their home station training is nowhere in our base budget. It should be.

Additionally, procurement items in wartime supplementals provide a good example of this base budget distortion. The adaptive insurgent-type enemy in GWOT has amplified the need to use technologically advanced weapons systems that are expensive to procure, operate and maintain. As the need for weapon systems procurement and R&D has increased, alternatives to baseline budgeting were required to pay the bill for this spending. War time supplementals have exploited the opportunity to "afford" these systems through the continued blurring of the line between supplemental and base budget items. As stated by a previous Deputy Director of OSD PA&E:

We (DoD) are now doing equipment purchases in supplementals. That is another thing that takes the decision making out of the (PPBE) programming process and puts it into the services and comptroller." These procurement items are generally far more expensive than their initial purchase price might imply. Many of these procurement items have large total life cycle costs (operating, support and disposal costs) which are invisible to the supplemental appropriation process. These costs are real and will have to be included in the future baseline budgets. These additional expenses will place even more strain on DoD's budget.

The following quote from an Army official further supports this point:

We have thousands of pieces of equipment in the U.S. Army that was purchased with supplemental dollars that didn't exist when we began the war...certainly not the models that we have upgraded to. The sustainment costs for those don't go away if we come out of the war. I am going to mention MRAPs again. So you have MRAPs now. You bought them with supplemental money and you are operating and maintaining them with supplemental money. There is absolutely no [base] budget visibility of MRAPs.

With these types of items migrating from the base budget to supplementals, it is evident that the base budget process (PPBE) is not able to cope with and address world events in real time.

DoD's reliance on supplemental appropriations as an off-budget method to fund GWOT is symptomatic of the entire Federal government's lack of fiscal discipline. The current spending path projects expenditures far exceeding revenues now and into the foreseeable future. The way in which the U.S. is financing GWOT exacerbates this problem. As mentioned earlier, the wartime supplementals are adding to the deficit, which increases the national debt.¹²³ This indicates that the overall budget strategy needs to be addressed and federal spending must be reviewed in its entirety to capture the entire picture of the nation's financial condition.

B. BASE BUDGET DEVIATION

Deviation from PPBE is not simply the addition of supplementals; there are deviations occurring within the base budget process as well. Despite the indications presented in Chapter II that PPBE is a deliberate and static process incorporating years of planning and programming to formulate each budget, this is an idealized depiction of the process. For this ideal to be realized, the PPBE system would have to remain relatively unchanged over time to allow constant and comparable outputs. This research revealed that, in reality, the PPBE system is modified by nearly every new administration. In the words of a former Deputy Director of OSD PA&E:

¹²³ United States Government Accountability Office, "Making Tough Budget Choices to Create a Better Future," *United States Government Accountability Office*, PowerPoint, Slide 10, (March 12, 2008), <http://www.gao.gov/cghome/d08604cg.pdf> (accessed June 4, 2008).

There have been large variations in PPB/PPBE between administrations. The PPB that existed when Rumsfeld came in bears little resemblance to the one used under McNamara. The first phase of PPB, in the 1960's, was the original systems analysis. The second phase started with Laird in 1969 and it went through the Nixon years and Ford. The Carter administration brought back unified guidance, which went back some degree to the original PPB. Then you had the Reagan years when they got rid of unified guidance and there was a period of very bureaucratized PPB. During Bush I when Cheney was SECDEF, PPB almost shutdown. The Clinton years deliberately revived PPB and put in something that was groping towards a hybrid of the 1960's and the 1970's. Then you had the first two years of Rumsfeld. They neither amended the old system nor used it. It was just, by and large, budgeting. You had the Aldridge report in January of 2003, which proposed a new PPB, which was never implemented; it really only existed on paper. Then you have the actual process that's existed from roughly 2004 to date, which is marked by the absence of programming.

The PPBE process has deviated from McNamara's original process, with each administration adapting PPBE to match its own needs and definition. Robert McNamara would not recognize today's PPBE process.

The lack of an effective strategy for addressing the insurgent nature of GWOT, mentioned earlier, has also forced a deviation from the PPBE process. The purpose of program budgeting is to choose the most efficient and effective mix of programs in meeting the nation's national security objectives. An ineffective strategy results in ineffective programming. PPBE has become not so much a strategy driven process as a budget driven process; operating within budget authority becomes the strategy and a combination of programs capable of handling all contingencies is required. Clearly, a combination of programs that can satisfy all contingencies and fit within budgetary constraints is not possible. Therefore, some new type of just-in-time budgeting system must be adopted that allows DoD to move outside of the PPBE process and secure more budget authority. In the words of an Army official: "I really think it is control number driving. What can we afford? Then we fix it in the supplemental." The *timeline* for PPBE, ideally, is driven by the need to deliver a budget on time. Today, the *content* of PPBE is being driven by the budget, too.

The introduction of capabilities-based analysis also represents a deviation from PPBE. This type of analysis places emphasis on developing capabilities rather than programs. Its goal is to ensure the capabilities exist collectively to address national security threats. Capabilities-based analysis is being used between the planning and programming phase as a form of risk mitigation. It is still being adopted as a formal process and is not detailed in desktop budgeting manuals. The introduction of this additional “phase” is somewhat puzzling. If PPBE is followed, valid policy objectives are created from effective strategies; actual programming occurs and produces the capabilities that satisfy policy objectives. This would render capabilities-based analysis unnecessary. Programs produce capabilities; capabilities do not produce programs. This informal insertion of capabilities-based planning into the PPBE process blurs and complicates the roles and responsibilities inherent to the system. According to an Army official, “We have added a step to an already compressed timeline. We are doing a quicker review and I am really worried about the quality of the analysis that is going on in between.”

The blurring of the line between baseline and supplementals, the changing of the PPBE system by each administration, the budget dictating PPBE content, and the introduction of capabilities based planning into the process all indicate that deviation from the PPBE process runs deeper than the mere addition of wartime supplementals. Deviation within the base budget process is also occurring in an attempt to find a budgeting system that can keep pace with the dynamic nature of the post 9/11 environment.

C. STUDY LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

While the authors had access to a sample of senior officials who provided timely and reliable insight, access to additional personnel involved in more areas of the budgeting and legislative processes and additional time would have yielded a more in-depth analysis of the current processes used by DoD. Additionally, access to the architects of the initial PPB system might have provided a more thorough perspective on today’s budgeting system. The study identifies that deviation from the PPBE process is

occurring but insufficient time was available to document the ad hoc and just-in-time budget system accurately and completely that is now in effect. Further study is warranted into the current budgeting practices and documentation of this process by an individual or group of researchers would prove useful in identifying and categorizing the budget process. While this study does identify the causes and consequences of continued PPBE deviation, it does not address how to correct the problems.

A detailed analysis of a future plan to remove the dependency of DoD on supplemental appropriations for GWOT funding was beyond the scope of this study. DoD has become accustomed to this money and has put it to use by purchasing items that would otherwise not be affordable. A study to develop a formal plan to gradually wean DoD from the dependence on supplemental appropriations would be beneficial.

The terms “uncertainty” and “emergency” have been continually cited by the Executive and Legislative Branches as the reason for the continued use of supplemental appropriations in funding GWOT. Further research could explore the use of these terms and conditions to analyze the extent to which they have been exploited and manipulated to allow the continued use of supplemental appropriations as the primary mechanism for funding GWOT. PPBE has not been utilized in earnest as a method for funding GWOT. Is this because the powers that be thought it would not work or because GWOT presented the opportunity to secure more funding through supplemental appropriations than through baseline budgeting procedures?

An additional area of further research entails the historic pattern of PPBE variations instituted by different presidential administrations. As stated by a previous Deputy Director of OSD PA&E:

There were large variations between administrations. You probably have four or five very, very different PPBE systems in the last forty years. The PPB system that existed when Donald Rumsfeld came in bears little resemblance to the original one under Robert McNamara.

If the use of PPBE is in name only and has the flexibility to be tailored to great extents, is it truly the formal structure that it appears to be?

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